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Toronto real estate forecast

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TORONTO REAL ESTATE FORECAST

Autumn 1992

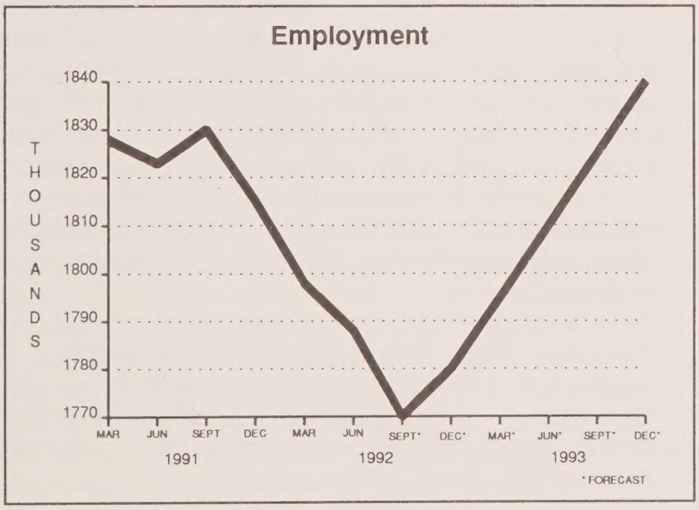
Highlights

- Local economy will share in North American recovery
- Toronto housing market has stabilized
- Strong housing demand forecast for 1992 and 1993
- Housing prices to be stable or rise modestly
- Condominium market will remain over-supplied.

Toronto to join the recovery

Of the major centres in Canada, Toronto has been one of the hardest hit by the recession. The level of employment has fallen by 191,000 persons, or 9.7 per cent during the recession. As of August 1992, the unemployment rate is 11.7 per cent (seasonally-adjusted). After several false starts at recovery, there are not as yet any good indicators of recovery at the local level: two available leading indicators (the total value of building permits issued and retail trade) are not yet showing any real increases. However, there are signs of improvement in the Canadian and U.S. economies, which will eventually lead to a turnaround in the local economy.

The U.S. recovery is resulting in record levels of exports from Canada, although much of the export growth to date has been in industries which are not important to the Toronto economy. Assuming that the U.S. recovery continues, Canadian exports will become more broadly based and export demand for Toronto's manufactured goods will expand.



Source: Statistics Canada and CMHC forecast.

As the Canadian recovery proceeds, Toronto's role as the national service centre will result in gradual improvements at the local level. This will include increasing strength in the Toronto-centred financial and business services industries and increased tourism.

Reductions in the value of the Canadian dollar against the U.S. dollar have resulted in reduced cross-border traffic, which should reduce cross-border shopping and increase Toronto retail sales activity. This effect should begin in the third quarter of 1992 and can be expected to have small but positive effects on employment in Toronto towards the end of this year.

Also, the North American currencies have experienced a sharp devaluation against European currencies this year. This should soon result in improved exports to Europe and Asia.

In addition to the positive external factors there are some internal factors which create uncertainty about the timing and pace of the Toronto recovery.

The most important of these is the very high debt burden of consumers, business, and governments, which will cause these actors to be cautious about spending for some time. In addition, slow growth of pre-tax income combined with increasing taxes has also resulted in erosion of consumers' real after-tax purchasing power. Finally, severe over-capacity in non-residential real estate in Toronto will discourage investment for years to come. As a result, the construction industry will not be able to fulfill its previous role as an engine of growth in the local economy.

As a consequence of the positive external factors, it is forecast that the long-awaited economic recovery in Toronto will begin by the end of the year, and the pace of recovery will accelerate during 1993. As employment improves and consumers become more confident about their job security and their personal finances, they will become more willing to spend and the momentum of Toronto's recovery will accelerate.

Improved migration supports housing market

During the housing boom, a rise in housing prices resulted in increased movement out of the Toronto CMA

to other parts of the province. This included movement of workers to distant suburbs where housing costs were more affordable plus retired persons who cashed out their housing equity and moved to smaller communities. Statistics Canada reports that more than 220,000 persons left the Toronto CMA for other parts of the province during 1988-89, the year of peak housing prices. Since housing prices have declined, CMHC forecasts that this component of migration will fall to 170,000 persons per year during the forecast period. Simultaneously, other components of migration are also improving in Toronto's favour. This includes growing immigration from other countries. Toronto receives about 40 per cent of all immigrants to Canada. Toronto's net migration is forecast to grow to 36,000 persons by 1993. But, this is only 60 per cent of the level achieved during 1986 to 1988.

Household formation has been depressed during 1991 and 1992, as a result of job losses. The return to growth in 1993 will cause household formation to recover to 26,000, which will support stronger housing demand.

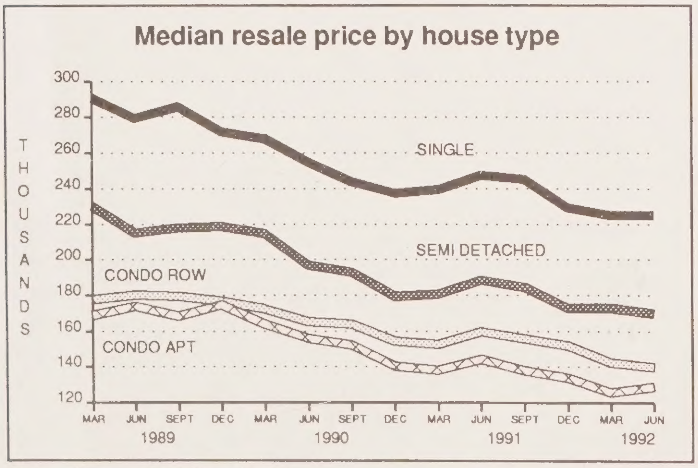
Interest rates

Sputtering economic activity and low inflation will keep interest rates at low levels for the rest of 1992. One-year mortgage rates should be around 6.00-6.25 per cent over this period. Three- and five-year rates are expected to stand around 7.75-8.00 per cent and 8.25-8.50 per cent respectively. However, further interest rate cuts are not ruled out should economic activity fail to firm up before the end of 1992.

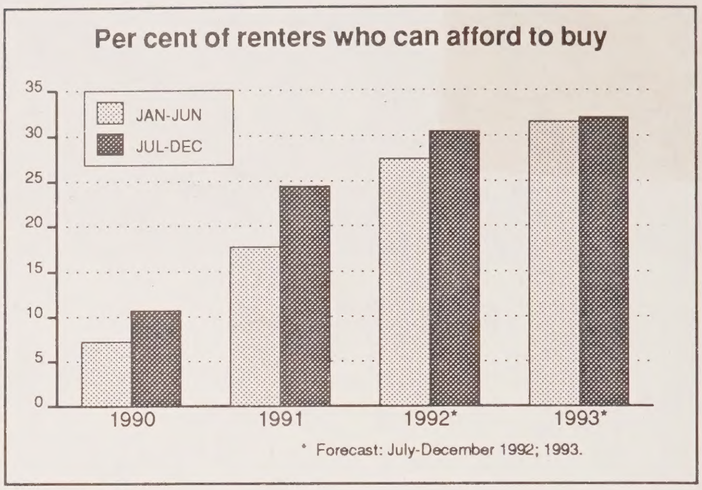
In 1993, interest rates are expected to rise gradually in response to strengthening economic conditions and a stronger demand for mortgage loans. One-year mortgage rates are forecast to rise to around 7.50 per cent by the end of 1993. Mortgage rates with a three-year term are expected to rise to approximately 8.50 per cent and five-year mortgage rates to around 9.25 per cent during the same period.

Strong demand from first-time buyers

Since the housing market peaked in 1989, median prices of homes sold through MLS[1] have fallen by about 25 per cent for all house types.



Source: Toronto Real Estate Board.



Source: CMHC.

The combination of lower house prices and the lowest interest rates in two decades has resulted in a very strong improvement in housing affordability. Affordability is now as good or better than it was during the previous housing market recovery, which occurred during 1983 to 1985. According to CMHC's Affordability Measure, the percentage of renters who can afford to buy has been rising steadily and reached 27.4 per cent in the first half of 1992. Declines in interest rates will lead to further improvements in the second half of 1992.

After being locked-out of the market during the boom, increasing numbers of first-time buyers are able to achieve homeownership, especially now that CMHC insures 95 per cent mortgages. Thus, the low end of the housing market has returned to balance and prices have stabilized. Many potential move-up buyers, on the other hand, are currently hesitant to take on the larger mortgages that would be associated with moving-up. In consequence, the resale market is over-supplied with more-expensive homes.

Resale market now in balance

The Toronto resale housing market troughed in September 1991, with the seasonally-adjusted rate of MLS sales at about 2,000 units. Since then, improving affordability has resulted in steady growth in activity, and the trend of MLS sales doubled to 4,000 units seasonally-adjusted by July 1992. By the second quarter of this year, the sales-to-active-listings ratio reached the 18 to 20 per cent threshold which is required for price stability[2] and prices appear to have stabilized.

The acceleration of sales this year has been in response to falling mortgage interest rates and federal housing programs. Reductions in interest rates normally have a short-term stimulative effect which lasts for three or four months. Beyond that, however, demand in the longer-term

1 Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association.)

2 For consistency with sales data, listings are for "single-family residential" from page 3B of The Toronto Real Estate Board's "Market Watch" report.

is determined mainly by the performance of the economy, chiefly by growth in employment. While it is expected that employment in Toronto will begin to grow modestly late this year, it will take several months before the improving economy begins to generate new housing demand. Thus, a modest slowdown in the seasonally-adjusted pace of activity is expected to occur during late fall and winter. However, even with this slowdown, sales should be much stronger than they were during the winter of 1992. The strength of the spring market in 1993 will be determined by the pace of the economic recovery.

The total number of resales in 1992 is expected to reach 42,500, an 11 per cent increase compared to 38,144 in 1991. For 1993, CMHC forecasts further growth, to 43,500 sales. The market will remain in balance throughout the forecast horizon, with the sales-to-active-listings ratio in the 20 to 30 per cent range.

Source: Toronto Real Estate Board and CMHC forecast.

Price stability at last

In recent months, CMHC's contacts in the real estate industry have reported that price declines have ended, at least for starter homes. Available statistics support these reports. However, some slippage may still be occurring at the upper end of the price distribution, as a result of the over-supply of move-up homes.

The resale market is currently dominated by first-time buyers. As sales mount, there are more opportunities for the sellers to move up into higher priced new and existing homes. Many of the potential move-up buyers are waiting for definite signs of economic recovery. When these signs become more obvious during 1993, more move-up activity will occur and the upper end of the market will also return to balance. This will generate a constant stream of new listings during the year, maintaining a reasonable balance between supply and demand.

Prices are forecast to be stable or increase at a moderate rate during the forecast period. The average MLS price is forecast at $218,000 for 1992, which is a drop of 7 per cent from 1991. Assuming that interest rates and employment behave as expected during 1993, the average price will rise by just over 2 per cent, to $223,000. This increase will be partly due to increased sales of higher priced homes. Prices for typical homes will increase by only one or two per cent during 1993.

Variations across the Toronto market

The Toronto market is in balance at an aggregate level, but some segments are performing better than others. Western areas (Oakville, Mississauga, and Brampton) returned to balance during the first quarter of the year. The Metro Toronto core became balanced during the second quarter. The east (Ajax-Pickering) and north (York Region) remain buyers' markets, meaning that listings are high in relation to sales and there is no pressure at all for prices to increase.

The western regions of the Toronto market will continue to lead during 1993. Their large supplies of moderate-cost housing, good transportation links, and proximity to job centres make them attractive to first-time buyers compared to other areas. On the other hand, recovery in the east and north depends very much on the establishment of stability and confidence in the automotive sector.

In the condominium market, there is a very large potential supply of investor-owned apartment condominium units which could become available in the resale market. In addition, improved affordability is encouraging many condominium owner-occupants to move to ground-oriented housing. As a result, the apartment condominium market will remain over-supplied for all of 1992 and into 1993.

Resales outperform new construction

While the resale market has returned to balance, the new home market has not fared as well. The share of new home sales compared to total activity (new plus resale homes) has fallen to 20 per cent in 1992, compared to an average of 35 per cent during the past decade. Homebuilders have struggled to compete with the resale market's offerings in terms of price, location, and features. Increasingly, builders are finding the right combinations, but the relatively weak performance in the new construction market attests that the resale market retains a competitive advantage.

In the second quarter of 1992, one-half of single-detached units that sold in the resale market were priced at $226,000 or less. In the new homes market, these prices were not matched, as only one-third of single-detached homes were under $226,000. In order to recapture market share, homebuilders must bring on more single-detached product priced at less than $200,000.

Forecast Summary — Toronto Market

	1991	1992*	1993*
Existing House Market			
MLS[1] Sales	38,144	42,500	43,500
Average MLS Price ($)	234,313	218,000	223,000
MLS Average Monthly Listings	16,874	17,800	16,500
Renter Households That Can Afford to Buy (July-December)[2] (%)	24.4	30.5	32.0
Forecasting Assumptions			
Mortgage Rate 3 year (%)	10.90	8.65	8.19
Employment (year end)	1,815,000	1,780,000	1,840,000
Household Formation	20,000	19,000	26,000
Net Migration	25,000	28,000	36,000

Sources: Toronto Real Estate Board, Statistics Canada, and CMHC.
* Forecast by CMHC
1 Multiple Listing Service is a registered certification mark owned by the Canadian Real Estate Association.
2 *Canadian Housing Markets*, January 1992; assumptions: Average starter home price, 10% downpayment, 32% GDS, 3 year mortgage rate.

CMHC's First Home Loan program a resounding success

When it was introduced in early 1992, it was anticipated that 10,000 households across Canada would use CMHC's new program this year to buy their first home with only a 5 per cent downpayment. Nationally, that figure was surpassed during the first few months. In just the Toronto CMA, 3,600 households have used it by the end of July and it is expected that over 7,000 households will have used it by the end of 1992. One out of every six home buyers will use this program in 1992. Clients of the First Home Line Insurance Program have Gross Debt Service Ratios (GDS) similar to households which have higher downpayments. This shows that many households can afford the monthly costs of owning a home, but accumulating the down payment can be difficult.

For further information, please call Willard Dunning, Senior Market Analyst, CMHC Toronto Branch at (416) 781-2451.

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TORONTO
REAL ESTATE FORECAST

Spring 1992

Highlights

- Homeownership affordability is at the best level since 1986.
- Single family starts will climb 33 per cent.
- Balance in the market will result in price stability.
- Condominium market will remain over-supplied.

Consumers lead the 1992 recovery

The recession hit most major sectors of the Toronto economy, including manufacturing, construction, transportation and utilities, and retail trade. The number of jobs fell by 138,000 (7 per cent) in a 12 month period from April 1990 to April 1991. However, employment levels were stable for most of the remainder of 1991, with a small decline at year end and early 1992. With Canadian interest rates now at the lowest level in almost two decades, and with recent declines in the Canadian dollar, conditions are right for consumer confidence to improve and the long-awaited recovery to begin in earnest.

Due to lower interest rates, consumers and businesses are experiencing relief from debt servicing costs. It is expected that in the coming months consumers will give priority to debt reduction, but they will also gradually increase their spending during 1992 and 1993, particularly on housing and consumer durables. This will result in a return to growth, albeit slow growth, in manufacturing and retail trade.

The finance, insurance, and real estate sector will also contribute to the recovery, because of the recent dollar volumes of trading on the Toronto Stock Exchange and because of a gradual increase in housing sales: these will generate increased commission incomes.

Business investment will be slower to respond. With high vacancy rates in non-residential real estate, there will be little need for new office, retail, and industrial construction during 1992. Increasing housing starts (including single-family homes and social housing) will provide some support to the construction industry.

We are expecting that there may be a slight decline in employment during early 1992. Growth will return during the second quarter. From the trough until the end of the year, employment will grow by about 30,000, or 1.5 per cent. The rate of recovery will be slower than previous recoveries. It will, however, be sufficient to restore balance to the housing market.

Migration is less of a factor

Very strong migration was a key element in the economic and housing market expansion of the late 1980's. Net migration peaked during 1986-87 and 1987-88 at about +60,000 per year. Thereafter, it has declined, as a result of the slowing economy and Toronto's high housing costs. Our housing market forecasts are based on the assumption that during the next few years net migration will be lower than during the late 1980's. With housing values now 25 per cent lower than at the peak, they are less of a barrier to in-migration. As the economy strengthens migration will improve: 12,500 during 1991-92 and 15,000 during 1992-93.

Source: Statistics Canada and CMHC forecast.

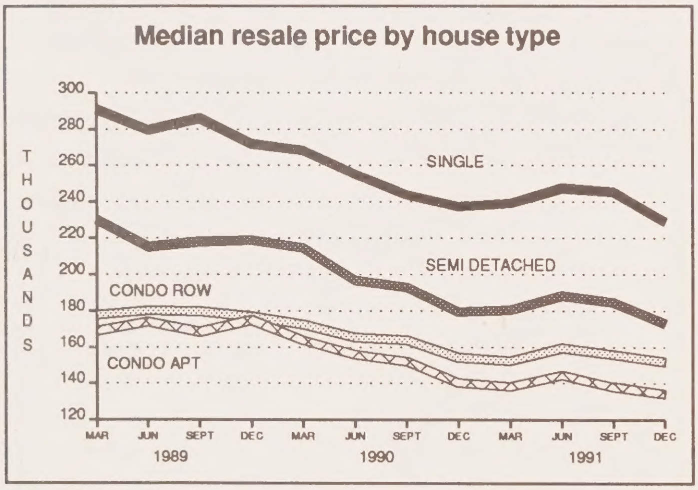
Interest rates

Interest rates are expected to decline further in Canada during the first half of 1992 as a result of low inflation and weak economic activity. Lower U.S. rates will be another factor favoring lower rates in Canada. One-year and three-year mortgage rates are expected to stand around 7.75 and 8.75 per cent respectively by the summer.

The outlook is for stable or slightly rising Canadian interest rates during the second half of 1992. Despite a weak Canadian economy and low inflation, higher U.S. rates will cause the Bank of Canada to raise rates.

Improved affordability stimulates buyer interest

The Toronto real estate market is currently oversupplied. The sales-to-active-listings ratio is in the 13 to 14 per cent range, well below the 18 to 20 per cent threshold which is required for price stability[1]. Apart from a brief rally last spring, the market has been in decline since the peak in 1989. Median prices of homes sold through MLS[2] have fallen by about 25 per cent for all house types.



Source: Toronto Real Estate Board.

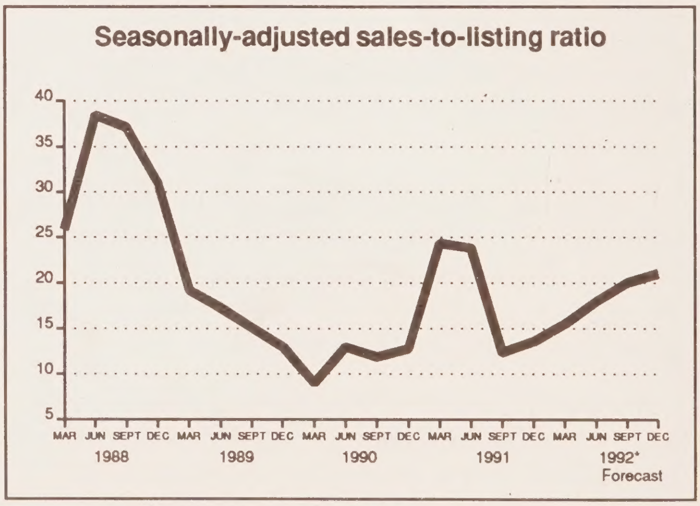
Affordability in the real estate market is at the most favourable level since mid-1986. Site traffic and inquiries indicate that there is potential for a strong spring market. In spite of this, many potential buyers have held back, because of uncertainty about the economy and a prevailing sense that there is no urgency: neither interest rates nor prices are anticipated to increase, at least not in the near term.

With large supplies to choose from, buyers are being very selective and hard-nosed about prices.

Resale market returns to balance

The total number of resales in 1992 is expected to decline to 36,500 compared to 38,144 in 1991. However, following the mini-boom last spring, real estate activity was quite slow in Toronto during the second half of 1991. This forecast for 1992 represents a steady strengthening compared to most of last year.

We anticipate a good spring market this year, due to the big improvement in affordability that occurred last fall, combined with CMHC's recent decision to insure 95 per cent mortgages plus the option to use up to $20,000 from RRSP's for downpayment. This will help to reduce the surplus of listings. During the second quarter, the sales-to-active-listings ratio will reach the 18 to 20 per cent level required for price stability and the average price will settle in a range of $205,000 to $210,000.



Source: Toronto Real Estate Board and CMHC forecast.

1 For consistency with sales data, listings are for "single-family residential" from page 3B of The Toronto Real Estate Board's "Market Watch" report.

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The market may slow in late spring, as pent-up demand is satisfied. The sales trend will pick up again towards the end of the year, as the economic recovery gathers momentum, consumer confidence improves, and it becomes apparent that price stability has been achieved. Most segments of the real estate market will be balanced in the second half of the year. However, in the context of the lingering effects of the recession and 10 per cent unemployment, housing demand will be moderate and consumers' caution will prevent prices from accelerating. The average price for the year is forecast at $210,000.

The resale market is currently dominated by first-time buyers. As increased numbers of sales are made during the spring and summer, there will be more opportunities for the sellers to move up into higher priced new and existing homes. This will generate a constant stream of new listings during the year, maintaining a reasonable balance between supply and demand.

In the condominium market, there is a very large potential supply of investor-owned condominium units which could become available in the resale market. As a result, the apartment condominium market will remain a buyers' market for all of 1992. The townhouse market will achieve balance this year.

Builders compete for market share

Starts of single-family homes will improve during the year and they are forecast to increase by 33 percent, to 12,600. This is only half the level seen during 1986 and 1987. As builders vie for market share, and compete with an oversupplied resale market, price competition has been intense. In the past two years, major components of cost have been reduced, including land prices, financing costs, profit margins, overhead expenses, and materials. Concessions by trades have also reduced builders' costs. Pressure from the new construction market is another factor that will keep a lid on prices in the resale market during 1992.

Forecast Summary Toronto Market

	1990	1991	1992*
Existing House Market			
MLS[1] Sales	26,779	38,144	36,500
Average MLS Price	255,020	234,313	210,000
MLS Average Monthly Listings	20,163	16,874	16,000
Renter Households That Can Afford to Buy (July-December)[2]	10.7	24.4	30.5
New Home Market			
Total Starts	18,723	18,814	24,300
Single-Detached Starts	7,037	9,459	12,600
Multiple Starts			
Homeownership	7,332	3,433	4,500
Private Rental	1,840	198	200
Assisted Rental	2,484	5,724	7,000
Forecasting Assumptions			
Mortgage Rate 3 Year	13.38	10.90	9.08
Employment (Year end)	1,901,000	1,815,000	1,825,000
Household Formation	26,000	24,000	24,500
Net Migration	17,000	12,500	15,000

Sources: Toronto Real Estate Board, Statistics Canada and CMHC.

* Forecast by CMHC.

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2 *Canadian Housing Markets,* January 1992; assumptions: average starter home price, 10% downpayment, 32% GDS, 3 year mortgage rate.

CMHC insurance for buyers of existing homes on the rise

CMHC's Mortgage Loan Insurance activity for buyers of existing homes has increased significantly over the past few years. For example, approximately 1 out of every 10 buyers in the Toronto area required mortgage insurance to finance their purchase in 1990. In 1991, this increased to 1 in 4 buyers.

These figures are encouraging and definitely reflect a mutual commitment from realtors and lenders to working with CMHC to help house Canadians.

For further information please call Willard Dunning, Senior Market Analyst, CMHC Toronto Branch at (416) 781-2451.

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TORONTO REAL ESTATE FORECAST

Autumn 1991

Highlights

- Strong international migration to lead housing recovery.
- Interest rates to remain flat in 1991, and rise slightly in 1992.
- Price of resale housing to average $238,000 in 1991.
- Single detached starts to rise to 10,000 in 1992.

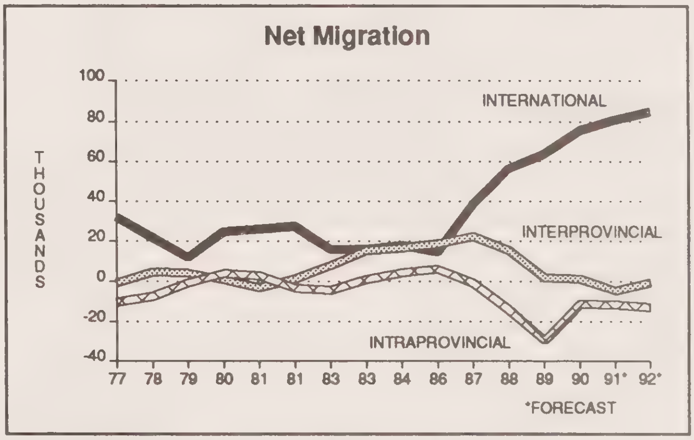
Growth To Return

After eight months of continued decline in employment, the Toronto economy bottomed out in April 1991. Over those eight months, the unemployment rate jumped from five per cent to over 9.5 per cent, while 74,000 jobs, representing almost four per cent of the total, were lost. Most of these jobs were in the manufacturing sector and construction sectors, though almost all sectors experienced some job loss.

The economy is expected to gradually improve over the next year, led by an improvement in the residential construction sector and in exports. In addition, the Provincial Government's expenditure program will assist in the recovery of consumer demand. Employment is expected to pick up in the hard hit manufacturing sector, as well as construction, trade and services.

A key factor behind the renewed vigour of the Toronto economy will be the expected high levels of migration to Toronto. This will result from the federal government policy to increase levels of immigration. Of the 100,900 net immigrants expected to arrive in Ontario in 1991, 80,720 are expected to arrive in Toronto. This figure will rise to 84,800 in 1992. At the same time, the level of out-migration from Toronto to other parts of Canada will begin to flatten as Toronto leads the economic recovery. In aggregate, we anticipate that the net number of new migrants to Toronto will range between 65,000 and 70,000 in each of 1991 and 1992. At an average of three persons per household, this will generate demand for over 20,000 housing units, though some of the migrants may double up for the first years of residency.

As a result of this renewed migration, the level of unemployment is not expected to improve substantially during the early part of the recovery. Moreover, many residents who left the labour force because of the recession, but remained in Toronto, will re-enter the labour force as job prospects improve, keeping unemployment rates in the eight to nine per cent range for most of the latter half of 1991 and into 1992.



Source: Statistics Canada to 1988; CMHC estimates thereafter.

Interest Rates

Interest rates are not expected to drop much further, if at all. As the economy becomes stronger and the Bank of Canada continues to watch inflation, interest rates in the third and fourth quarter of 1991 should stabilize. U.S. rates, which are expected to rise due to a stronger economy and fear of higher inflation will be another reason for Canadian rates holding steady. The economic recovery in Canada along with rising U.S rates will put upward pressure on Canadian rates during 1992; however, the rise will be moderate.

Interest Rates Forecast

	1 yr.	3 yr	5 yr.
1990 -1Q	12.75	12.67	12.67
-2Q	14.25	14.25	14.25
-3Q	13.75	13.75	13.67
-4Q	12.83	12.83	12.83
Avg	**13.40**	**13.38**	**13.36**
1991 -1Q	11.25	11.67	11.67
-2Q	10.25	11.08	11.25
-3Q	10.00	10.75	11.50
-4Q	9.75	11.00	11.50
Avg	**10.31**	**11.13**	**11.48**
1992 -1Q	9.75	11.00	11.50
-2Q	10.00	11.00	11.50
-3Q	10.00	11.00	11.50
-4Q	10.00	11.00	11.25
Avg	**9.94**	**11.00**	**11.44**

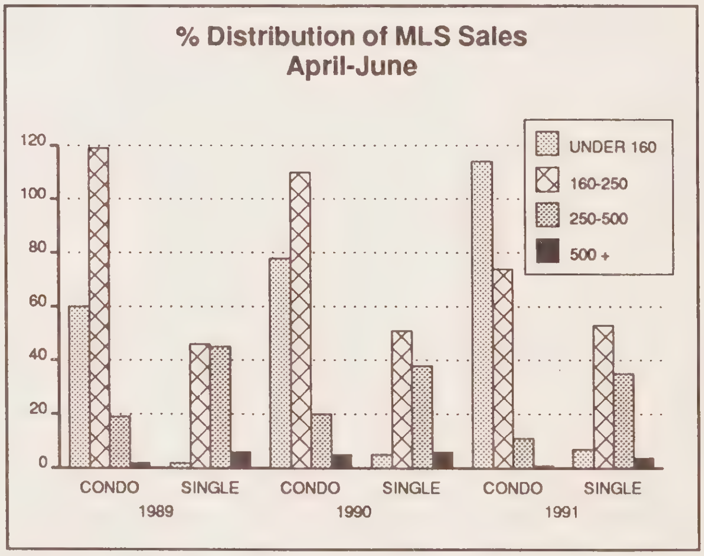
Housing Leads Recovery

Home sales are traditionally a leading indicator of economic cycles. Already by March, 1991, both resale and new home sale activity were extremely strong. This renewed strength was the result of lower interest rates, and lower house prices. The result was an increase in the number of renters who could afford a starter home from 7.2 per cent in the first half of 1990 to 17.7 per cent in the first half of 1991. Builders took advantage of this resurgence in first time home ownership and provided lower priced housing that was competitive with higher-priced rental housing, thus encouraging households to move from rental to home ownership. The improvement in the housing market will be gradual, as the forecast improvement in the economy is expected to be gradual. Many households will be cautious about purchasing a home until the recovery is firmly established. Already by the second quarter of this year, consumer confidence was starting to improve: the Conference Board of Canada'a Ontario Index of Consumer Attitudes jumped to over 87, from the 75 level where it had been for over a year.

Resale Market to Remain Balanced

Traditionally, demand for resale housing falls off during the summer months, and then improves slightly in September and October. A similar seasonal pattern is expected in 1991, resulting in an average of 2750 sales per month over the second half of the year. This will bring total MLS* sales for the year to 41,000, an increase of over 50 per cent from 1990. In 1992, sales will continue to be strong, though the spring of 1992 is not expected to be as strong as the spring of 1991, when a great deal of pent-up first-time buyer demand was experienced. As a result, MLS sales in 1992 will fall to 38,000 residential units. A good supply of listings will prevent prices from rising significantly, and for 1991, we expect the annual average price to be $238,000, seven per cent lower than in 1990. Monthly prices should then begin to gradually increase. The annual average price should increase by six per cent, averaging $252,500 in 1992.

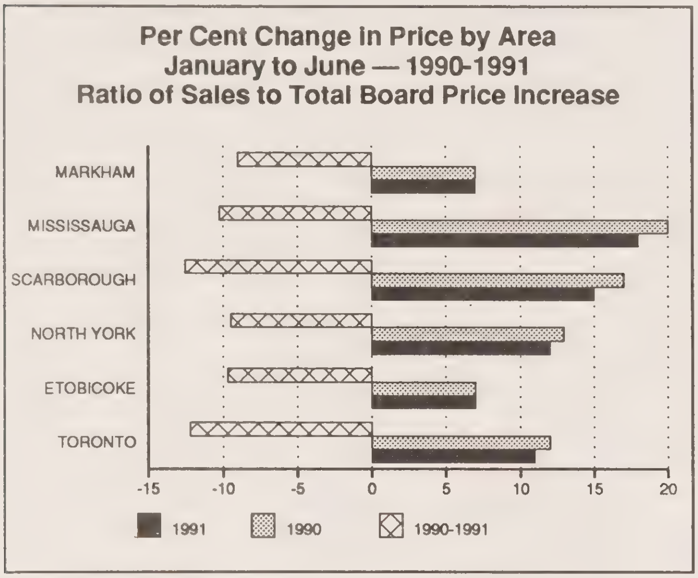
Toronto's resale market moved from a buyer's to a seller's market in the spring of 1991, as first time buyers re-entered the market in large numbers. By June, however, the market returned to a balanced situation, as the number of sales and the sales-to-listing ratio both fell. The market remained weak in the more expensive price ranges, where prices exceeded the finances of most first time purchasers. Consequently, part of the fall in prices was the result of a change in the mix of housing being sold.



Source: Toronto Real Estate Board.

* Multiple Listing Service (MLS) is a registered certification mark owned by The Canadian Real Estate Association.

From the first half of 1990 to the first half of 1991, the average price of a resale house fell by 10 per cent. The price drop was greatest in the City of Toronto and Scarborough, and lowest in North York, Mississauga, and Markham. The differences, however, are not large, and are likely due to the mix of units being offered.

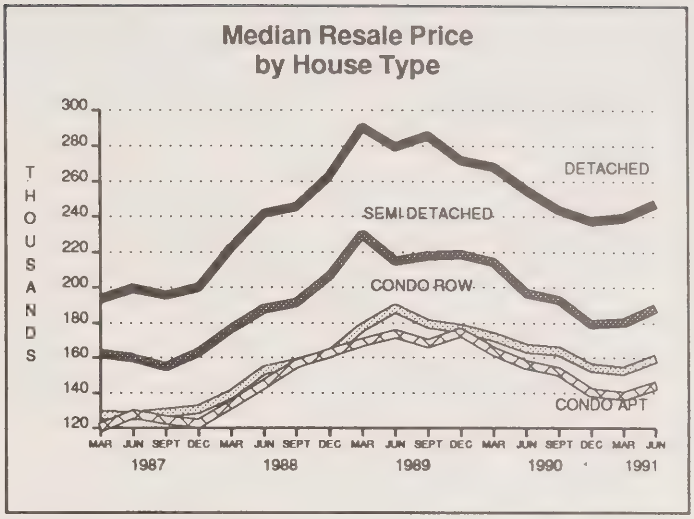


Source: Toronto Real Estate Board

The price movement of the various types of housing has been almost identical. The market forces that influence housing are affecting all unit types. Similarly, the proportion of sales by unit type have remained relatively constant, with slightly more than half being detached dwellings, and one quarter being condominium apartment and row units.

Affordability To Remain At Current Levels

In the first half of 1991, the average starter home cost $175,590, slightly lower than the $179,640 in the second half of 1990. When combined with a drop in interest rates, the total monthly carrying cost for a mortgage fell from $1,934 to $1,790. As a result, the proportion of renters who could afford to buy a starter home in Toronto jumped from 10.7 per cent to 17.7 per cent. With house prices and incomes expected to increase at roughly the same rate in 1991-92, and interest rates to rise slightly, this proportion is expected to drop marginally to 17.5 per cent into 1992.



Source: Toronto Real Estate Board.

New Home Market To Remain Balanced

Single detached housing starts in the first half of 1991 remained extremely weak, with only 3,663 units started in the first six months, compared to 3,700 in 1990. This contrasts with the 9,522 units started in 1989. However, the upturn in new home sales which occurred in the spring of 1991 and then levelled off by June, will result in a small increase in single detached starts in the second half of the year, bringing total single detached starts for 1991 to 7,000 units, approximately the same as in 1990. An upturn will occur in 1992, when total detached starts will number 10,000.

Most of the new single detached starts in the first half on 1991 occurred in Mississauga: of the 3,663 starts during this period, 41 per cent were there. For comparison, in the first half of 1989, 12 per cent of the starts were in Mississauga. In contrast, York Region had 27 per cent of the starts in the first 6 months of 1991, compared to 45 per cent in the first half of 1989. Mississauga's strong starts record in part is a result of the supply of suitably zoned and serviced lots. As the recovery becomes more established, new home construction is expected to spread more evenly across the Toronto area.

Forecast Summary Toronto Market

	1990	1991*	1992*
New Home Market			
Total Starts	18,723	17,200	22,150
Detached Starts	7,067	7,000	10,000
Multiple Starts			
Homeownership	7,332	4,100	4,950
Private Rental	1,840	600	700
Assisted	2,484	5,500	6,500
Renter Households that can Afford to Buy (Jan. June)	7.3	17.7	17.5
Existing House Market			
MLS Sales	26,779	41,000	38,000
Average MLS Price	$255,020	$238,000	$252,500
Rental Market			
Vacancy Rate (Oct)	1.0	2.2	1.8
Average Rent, 2 Bedroom (Oct)	689	720	750
Forecasting Assumptions			
Net Migration*			
International	75,470	80,720	84,800
Interprovincial	1,299	-4,688	-720
Intraprovincial	-11,250	-11,500	-12,750
Total	65,519	64,532	71,330
Employment ('000 of jobs)	1,931	1,820	1,911
Mortgage Rate, 3 Year	13.38	11.13	11.00

*Forecast

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This publication is available from CMHC's Canadian Housing Information Centre in Ottawa at (613) 748-2367.

For further informantion call the Market Analysis Department, Toronto Branch, at (416) 781-2451.

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REAL ESTATE FORECAST TORONTO

Spring 1991

HIGHLIGHTS

- Toronto in worst housing slump in years
- Toronto economy to begin to recover by third quarter of 1991
- Resale market showing improvement
- Migration a major factor spurring housing recovery
- Level house prices and lower interest rates improve affordability

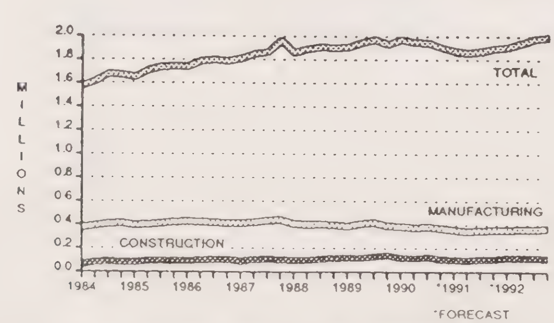
1990: WORST SLUMP IN YEARS

The housing sector in Toronto is currently at the tail end of one of its worst slumps in many years. The median resale house price has fallen by 17 per cent from the peak in March 1989, the most they have ever fallen. MLS sales which have been falling for nearly 5 years totalled 26,779 in 1990, 49 per cent lower than the 52,919 sales at the peak in 1986. Housing starts numbered only 18,723 units, the lowest level since 1962. New home sales dropped to 8,100, the lowest annual figure since figures were first assembled in 1980.

THE EXTENT OF THE CURRENT DOWNTURN

The current economic downturn in employment began in Toronto in the second quarter of 1990, following 27 quarters (almost 7 years) of steady increase in employment. Between the first quarter and the fourth quarter of 1990, total employment fell 3.5 per cent. Employment is likely to continue to decline for

Employment Trends in the Toronto CMA
(three month Average)



SOURCE: Statistics Canada; forecast by CMHC, Toronto Branch

another 2 quarters, and the total decline will be 6 per cent from the peak in the first quarter of 1990. That would bring employment at the end of the second quarter of 1991 to 1.85m, compared to 1.95m at the peak. The unemployment rate, which was 3.4 per cent in the third quarter of 1989, rose to 6.7 per cent in the last quarter of 1990, and is expected to grow to 8 per cent during 1991. The rate will be higher than this during the first quarter, but will gradually decline through the rest of the year as people stop looking for work and temporarily withdraw from the labour force.

MANUFACTURING AND CONSTRUCTION HARDEST HIT

The recession has been concentrated in the manufacturing and construction sectors, though there are indications that it is spreading to the service and trade sectors. In the case of manufacturing, the recession is due to a combination of weak domestic demand, declining exports and a realignment of production lines in multiplant firms, as companies respond to the recession and free trade by closing out older, inefficient plants. Total employment in manufacturing has been declining, though somewhat erratically, since 1981. Whereas in the second quarter of 1989 there were 415,000 workers in manufacturing, by the last quarter of 1990 there were only 375,000, a decline of 10 per cent.

The decline in employment in construction is a result of weakening demand for both residential and non-residential space, combined with an excess inventory of residential, office and commercial space constructed during the protracted boom years of 1986 to 1989. By the fourth quarter of 1990, employment in construction numbered 110,000, which is 80 per cent of the peak level of 140,000, on a seasonally adjusted basis, in the fourth quarter of 1988. Employment in construction will continue to decline as few new projects are being started.

The decline in employment, combined with international uncertainties, has resulted in a sharp decline in confidence in the economy. The Conference Board reports that the Index of Consumer Confidence in Ontario has fallen from 142 in the second quarter of 1987, to 74 in the second quarter of 1990, a plateau at which it remained for the rest of 1990.

RECESSION TO END BY THIRD QUARTER OF 1991

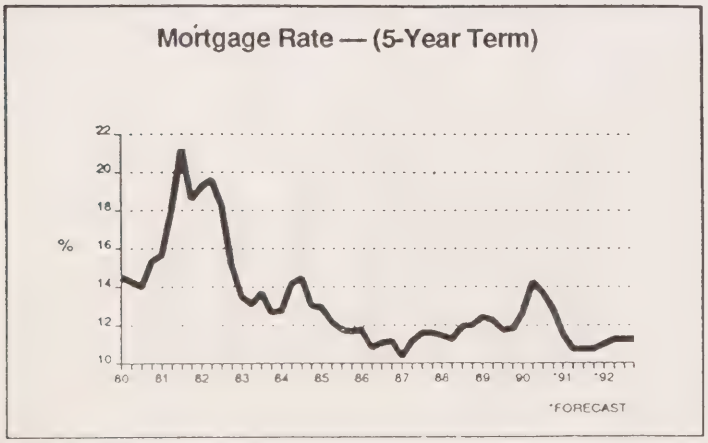
The decline in the Toronto economy is expected by most forecasters to continue until the third quarter of 1991. By then, the lower rate of interest, improvements in the demand for Canadian exports from the U.S. as a result of the lower Canadian dollar and an improved U.S. economy, and pent up consumer demand will

Library University of Toronto

result in an increase in consumer expenditures, spurring construction, business investment and consumer goods production. This recession, to the extent that it is a typical business-cycle induced recession, will likely follow the pattern of the 1981-83 recession, when house starts and sales increased a half year before employment, and house prices did not fall sharply, but waited until consumer prices caught up. Some features of the current recession make it different from the previous recession, for example, an oversupply of units, particularly condominiums, a larger drop in prices from the peak, and the tail-end of the baby boom entering the housing market. Nevertheless, the basic relationship of the housing sector to the overall economic cycle is not expected to change. Consequently, if the economy moves out of the recession by the third quarter, we should see an improvement in house sales and starts at the end of the first quarter and a flattening out of house prices until the level of consumer prices catches up.

Interest rates declined throughout the fourth quarter of 1990. The decline in economic activity curbing inflation, along with lower interest rates in the U.S., allowed the Bank of Canada to ease monetary policy. The prime rate dropped by one percentage point to 12.75 per cent during the fourth quarter. The one and the five year mortgage rates dropped by three quarters of a percentage point to 12.50 per cent by the end of December 1990, from their level of 13.25 per cent at the end of September. Even though mortgage rates declined they were still too high to stimulate demand in the housing sector as consumer confidence was very low as a result of slow economic growth and rising unemployment.

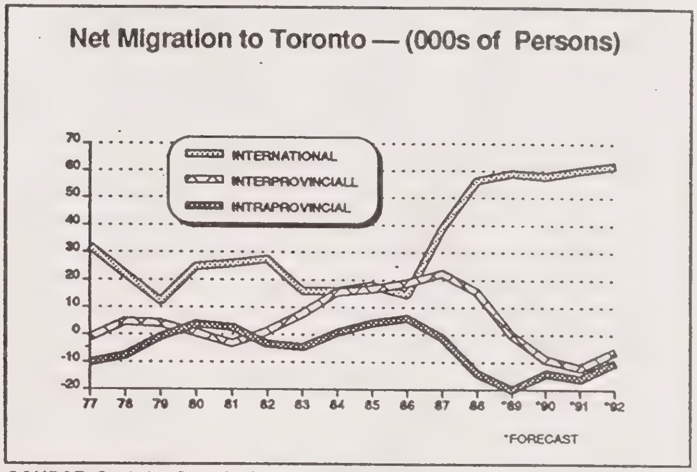
Most forecasters expect interest rates to continue to decline in 1991 as weak economic growth and lower wage inflation will continue throughout the year. The introduction of the GST and relatively high interest rates in the U.S., Germany and Japan will, however, moderate the decline in Canadian rates, particularly long term compared to short term rates. In 1991, mortgage rates are expected to fall by 1.50-2 percentage points from the level observed at the end of December, 1990. Mortgage rates for a one-year term are expected to be between 10.25 and 10.75 per cent while mortgages for a five-year term are expected to range between 10.75 and 11.00 per cent. Most of the decline in mortgage rates is expected to occur during the first half of the year followed by a levelling off in the second half as economic conditions improve.



SOURCE: CMHC

MIGRATION WILL SPUR HOUSING DEMAND

The third major source of the recovery, in addition to the improved economic environment and lower interest rates, will be the continued large influx of migrants to the Toronto area. Immigration had been a major cause of the 1985-89 boom, as the number of migrants averaged 47,000 persons per year. Assuming an average of 2 persons per household, this would represent 23,500 additional households. However, beginning in 1987, a growing number of persons left Toronto to go either to other parts of Ontario or to other provinces. Much of this outmigration was due to the high cost of housing in Toronto, and the lack of job opportunities. With the declining price of housing, and the anticipated improvement in the economy, out-migration will decline. At the same time, international immigration is likely to increase as a result of government policy to increase the levels of immigration to 210,000 in 1991 and 250,000 for the subsequent 4 years. As a result, we forecast that in 1991, net migration to Toronto will number 32,000, rising to 46,000 in 1992. This demographic growth will spur consumer demand, particularly for housing. Consequently, by the third quarter of 1991, we expect employment to begin to increase, reaching the 2 million job level by the second quarter of 1992.



SOURCE: Statistics Canada; forecast by CMHC, Toronto Branch.

RESALES TO TOTAL 27,000 IN 1991; 30,000 IN 1992

MLS sales have increased steadily since 1983 before levelling off in the second quarter of 1987. By the second quarter of 1989 they had dropped back to the pre-boom period levels, where they have remained for 6 quarters. We expect sales to increase in the first quarter as the housing market recovers, and then level off as the market waits to see if the economy pulls out of the recession. As a result, for the entire year, sales will equal 27,000, the same level as in 1990; by the third quarter the market should be in a more balanced position. By 1992, as the economic recovery strengthens, sales will increase to 30,000, a growth of 11 per cent.

PRICES TO LEVEL OFF FOR TWO YEARS

The major characteristics of the current housing recession is that it is coming after a period of extended price growth. Resale housing prices had increased by 170 per cent between the beginning of the boom in the last quarter of 1984, and the house price peak in March 1989. Since that time, the median house price

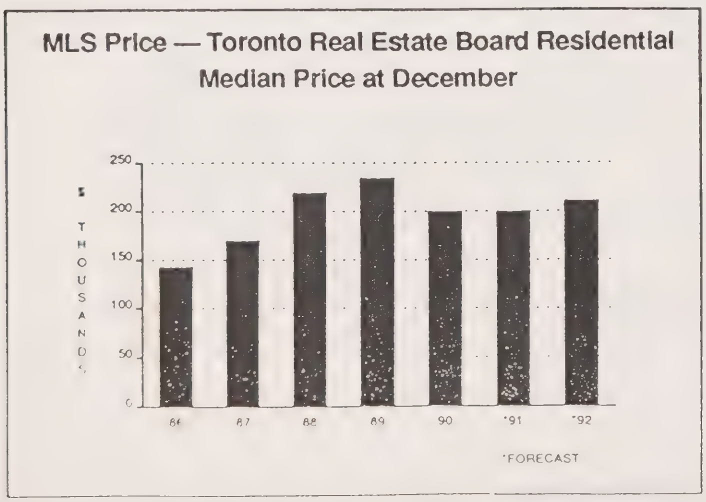
SOURCE: Toronto Real Estate Board; forecast by CMHC.

has fallen by 17 per cent. As a result, by the end of 1990, the median resale price in Toronto was $199,775, the same level as existed in June 1988. The major reason prices fell was the large supply of units being listed (over 23,000 at the peak in April 1989), and the return of demand from the frenzy created by the price spiral in 1987 to 1988, to more normal levels. In fact, sales were remarkably stable throughout most of 1990, varying around the 2,300 level for most of the year.

In the previous recession, the drop in prices from the peak was quite moderate. Prices remained flat at the $100,000 level for 14 quarters. Because total consumer prices were rising, real prices actual fell. The boom leading up to the current recession had much higher rates of inflation in house prices. As a result, there has been a steeper drop in prices. Most of this drop has already occurred. Sellers will try to resist any further price declines by withholding the unit from the market, if at all possible, rather than see their equity eroded. Thus, we expect median prices to level off at $200,000, and remain at that level until the recovery is well underway, the end of 1991 at the earliest.

SINGLE DETACHED HOMES TO IMPROVE FIRST

The price of singles and semis have declined the least, 13 per cent over the past twelve months, compared to 17 per cent for



SOURCE: Toronto Real Estate Board, forecast by CMHC

condominium apartments. At the end of 1990, the median price for a single detached unit was $237,500. This is expected to rise slightly, to $245,000 by the end of 1991.

The larger decline in apartment prices reflects the large excess supply of new condominium apartments marketed over the past 2 years. At the peak, over 18,000 condominium apartments were under construction in Toronto, compared to 2,500 at the beginning of the boom in 1985 and 11,500 at the end of 1990. Many of these units had been bought by investors in the hope of either reselling them quickly for a profit or renting them out. With the decline in prices and the rise in rental vacancy rates, many purchasers put their units on the resale market, adding further to the excess supply. Not only have a large number of condominium projects been put on hold (over 50 projects, for a total of 10,000 units) but the market has now incorporated this excess supply perception, many of the new condominium units have been rented out, and prices of condominiums are likely to fall only slightly and then stabilize. The median price of a condominium apartment, which was $140 000 at the end of 1990, will likely fall to $136,000 by mid year, and then return to the $140,000 level by year end.

STARTER HOMES FIRST, THEN THE MOVE-UP MARKET

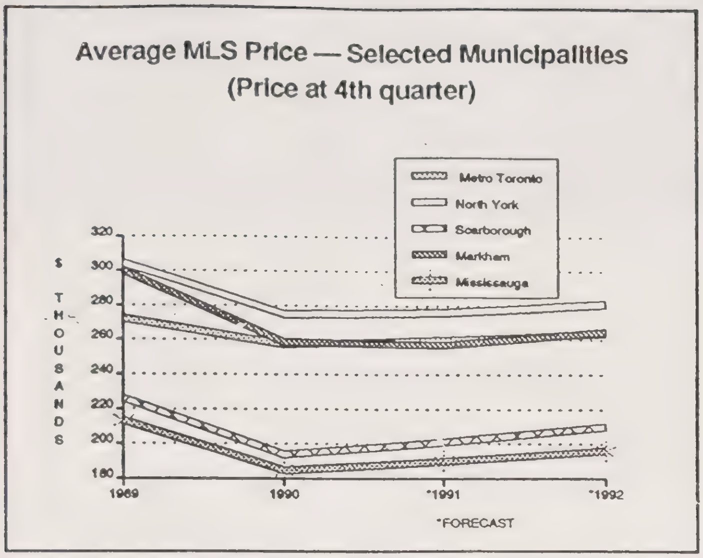
In terms of the price distribution of housing, most of the weakness in the current market has been in the more expensive units, particularly the large, detached units. Whereas one-third of all MLS detached and semi-detached sales in the first 6 months of 1989 were units priced above $300,000, this figure has slipped to one-fifth for the second half of 1990. The reason the higher-priced sector of the market has suffered the most is that many of the expensive units had been bought during the boom, when housing was bought in expectation that the boom would never end. As the recession, with its fear of job lay-offs and falling house prices, set in, demand for these large units has fallen most sharply. As the recession gradually ends, this fear will be slow in disappearing; initial strength in the housing market will come from the first time purchaser. Consequently, for 1991, we forecast that the demand for larger units will continue to fall, whereas the demand for lower priced units will begin to increase. Once the recovery is under way, we expect demand for larger units to return, as the baby boom generation upgrades its housing consumption.

PRICE FIRMEST IN LOWER PRICED AREA

Comparing the major municipalities that make up the Toronto market, prices have fallen most in those markets that had the largest boom in new construction. These are areas such as Markham, Mississauaga and Scarborough. In all of these centres, prices fell by 14 per cent during 1990. In contrast, prices fell by only 5 per cent in the City of Toronto, and 10 per cent in North York. Consistent with our forecast that prices will fall for the larger, more expensive units, for 1991, we expect prices to fall in those municipalities that have a large concentration of such units, such as Markham and Vaughan.

NEW CONSTRUCTION TO START TO IMPROVE BY THE MIDDLE OF 1991

Normally in a business cycle, construction of new housing follows the resale market by two to three months, as consumers look first to the existing market and builders wait several months until a significant proportion of new homes in a development are

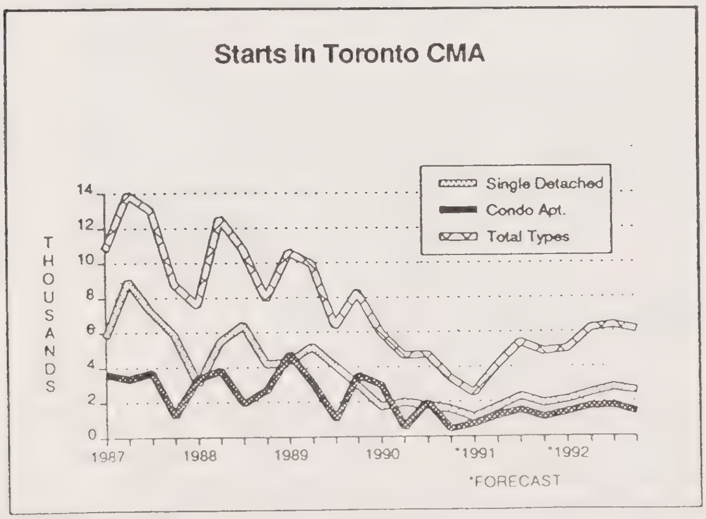


SOURCE: TREB and CMHC; forecast by CMHC.

sold before actually beginning construction. As a result, new house construction is expected to remain at current low levels until the middle of 1991; starts in the first half of the year will number just under 6,600 units, while in the second half of the year, starts should jump to over 10,000 units, bringing the total figure to 17,000. This is slightly lower than the figure for 1990 of 18,500. In 1992, with the recovery underway and demographic pressure increasing, starts will increase, and are expected to total 23,500.

MEDIAN PRICE OF NEW SINGLES TO REACH $300,000 BY YEAR-END

The median price of new single detached units has fallen from $365,000 in the first quarter of 1990, to $280,000 in the last quarter, a drop of almost 25 per cent. Prices are expected to remain at the $280,000 level, before GST, for the beginning half of 1991, before increasing slowly as consumer demand starts to increase. By the end of 1991, we expect prices of new single detached units to be $300,000, as purchasers wishing to upgrade their housing turn to the new construction sector.



SOURCE: CMHC

MORTGAGE CARRYING COSTS IMPROVING

The median household income for homeowners in Toronto is estimated by CMHC to be $72,000 in 1991, and will rise to $74,000 in 1992. With interest rates expected to average 11 per cent in 1991, this would mean that for the median household able to make a 40 per cent downpayment and willing to finance mortgage payments at 28 per cent of income, they could afford to purchase a house worth $270,000, which is roughly the same as the median price of newly constructed detached housing, and 13 per cent higher than the median price of single detached units on the resale market. Consequently, once the fear of job loss begins to recede, they will be able to afford to improve their housing by moving up.

For the renter household, CMHC has estimated that at the end of 1990, approximately 13 per cent of rental family households could afford to purchase a starter home in Toronto. This is a significant increase over the 8.7 per cent who could do so at the middle of 1990, reflecting the drop in MLS house prices and interest rates that have occurred in the latter half of the year. With interest rates expected to fall even further, but house prices to remain flat, this percentage should increase slightly in 1991, so that by the end of the year, 16 per cent of renter families should be able to afford homeownership. This improvement in the affordability for first time purchasers will, in turn, enable the expansion of the move-up market as well.

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REAL ESTATE FORECAST TORONTO

Autumn 1990

HIGHLIGHTS:

- low level of employment creation expected this year and next
- resale prices to fall 7.5 per cent in 1990, but rise in 1991 by 3 per cent
- condominiums to remain in oversupply

The Toronto housing sector has entered a period of weakness, MLS sales falling from the very high levels in 1988, the sales to listing ratio hovering around 10 per cent and prices beginning to decline. The primary causes for this decline are uncertainty about the economic future, high interest rates, high house prices, and overbuilding in the past 2 years. The outlook for the remainder of 1990 is for a levelling off of sales activity at current levels and further declines in price, with the possibility of an improvement beginning the middle of 1991.

ECONOMIC UNCERTAINTY

The economic outlook remains uncertain. The number of jobs in the manufacturing sector in Toronto fell from 410,400 in the second quarter of 1989 to 378,200 in the second quarter of 1990. Although the level of employment grew by 10,000 over the past year, the increase was concentrated in the Finance and Real Estate Sectors, both of which will be facing declining employment over the next months.

For 1990, an increase of only 15,000 jobs is forecast, compared to 49,000 jobs in 1989. By the middle of 1991, the economy should begin to improve, resulting in an increase in production, to be followed by increased employment. As a result, there will be an increase in employment of 23,000 in 1991.

The unemployment rate in Toronto stood at 3.9 per cent in June 1990, down from the 5.1 per cent level recorded in May, and a slight increase from 3.7 per cent in June 1989. A sharp drop in the labour force participation rate, combined with the large outflow of persons from Toronto to the western provinces has kept the unemployment rate from rising even faster, despite the lack of new jobs. As the western economy continues to soften, individuals who lose jobs over the next months will remain unemployed in Toronto. As a result, the unemployment rate is expected to jump to 6.5 per cent by the end of the year, and reach 7.3 per cent in 1991.

Interprovincial migration figures show a net loss from Ontario of 6,500 persons in 1989. This compares to positive interprovincial migration figures of 11,000 in 1988 and 38,000 in 1987. Net interprovincial outmigration of 13,400 is expected in 1990, with a net loss of 5,700 in 1991. However, net immigration from other countries remains strong. During 1989, net immigration to Ontario totalled 86,000, compared to 71,000 in 1988. Total net immigration is likely to increase in 1990 to 92,000, and then decline slightly to 88,000 in 1991. Assuming 60 per cent of migrants come to Toronto, 15,720 additional households are expected for Toronto in 1990 and 16,460 households in 1991.

Mortgage interest rates increased during the first half of 1990 in response to stronger than expected economic activity, political uncertainty and continued inflationary pressures. Rates on both one and five year terms climbed to 14.25 per cent by the end of April 1990 and remained at that level throughout the second quarter. At 14.25 per cent mortgage interest rates were 2 full per cent points higher than at that beginning of the year.

Most forecasters expect interest rates to remain high throughout most of the third quarter of 1990 before declining during the remainder of the year. Interest rates will continue to decline, albeit modestly, throughout 1991. Although weaker economic activity will place downward pressure on interest rates during the second half of 1990 and first part of 1991, the combination of wage inflation, the introduction of the GST and high interest rates in the U.S., Japan and West Germany will moderate the decline. Mortgage rates are expected to remain high throughout the third quarter before declining by one-half to one full per cent point during the fourth quarter. They are expected to continue to decline further by between one-half to one per cent point on average in 1991.

RESALE PRICES TO DECLINE

Within a period of a few months, the Toronto housing market turned from a strong sellers market to a buyers

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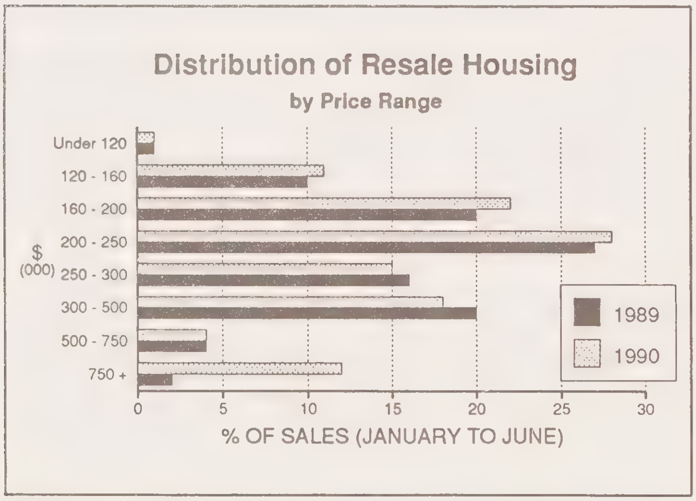
market, as the major housing indicators (sales, starts, prices, resales, and sales-to-listing ratios) all weakened in response to economic uncertainty, high interest rates and outmigration. The sales to listing ratio dropped from 52 per cent in February 1988 to 13 per cent 3 months later, while sales of both new and existing units peaked in March of 1988. Prices however continued to rise throughout 1988.

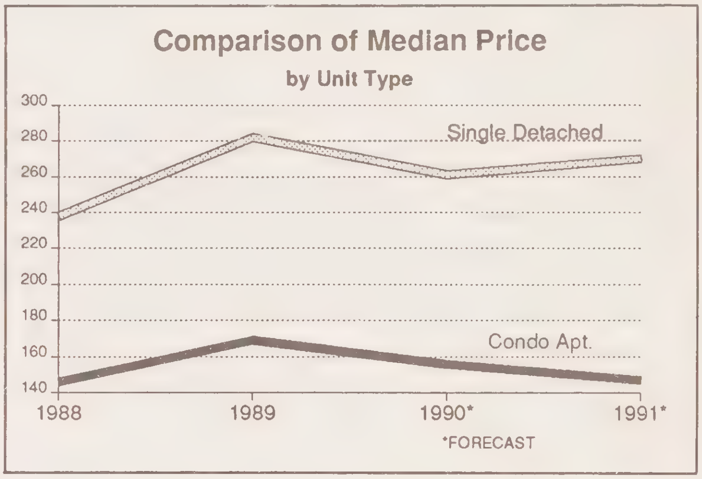
Although sales improved in the first quarter of 1989, higher interest rates caused April sales to decline once again, and then flattened out with low sales and level prices. By the second quarter of 1990, median prices began to fall.

The price of resale housing, according to the Toronto Real Estate Board, has remained relatively flat since February, as the median price for a single-detached unit fluctuated around $270,000. In 1988, the median price for a single-detached unit was estimated by CMHC to be $238,000 while in 1989, the estimated median price of a single-detached unit was $282,000, or 18 per cent higher than the previous year. For 1990, prices for single-detached units are expected to fall by 7.5 per cent, and then rise in 1991 by 3 per cent as the economy begins to improve, resulting in an annual median price of $270,000 in 1991.



SOURCE: Toronto Real Estate Board.

The median price for condominium apartments, which rose by 17 per cent from 1988 to 1989, is expected to fall 8 per cent, as a result of the large supply of new units coming on the market. Not only will developers of new projects be competing with existing resales, but many of the units being listed on the MLS system are condominium units that had been sold but never occupied. For 1990, the median condominium unit on MLS is forecast to be $156,000, down from $169,000 in 1989. Unlike single detached units, whose price is expected to rise slightly in 1991, the price will decline a further six per cent in 1991 as a result of the surplus of condominium units now under construction.

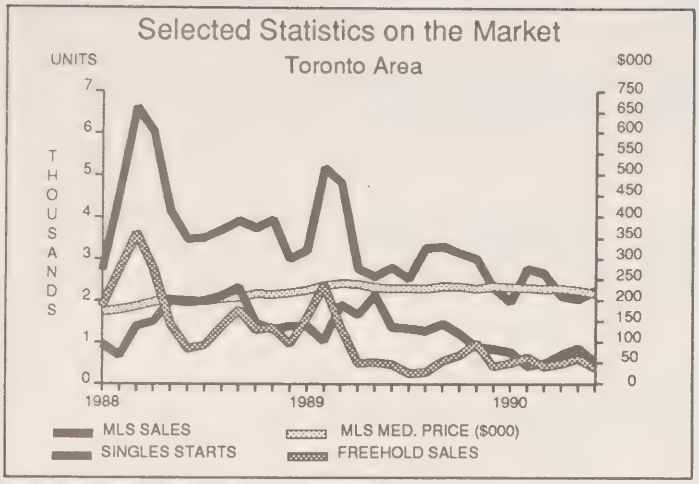


SOURCE: Toronto Real Estate Board, adapted by CMHC.

The price trends in the various municipalities within Metro Toronto have all moved in a fairly similar way. North York and the City of Toronto remain the most expensive municipalities. Comparing the regions, the eastern part of the Census Metropolitan Area (CMA) has seen prices remaining relatively flat for several months, whereas prices in York Region have increased since 1988. This is because of the high volume of construction of expensive homes in York Region. As these homes enter the resale market, they push up the average MLS price.

The total number of sales on MLS fell from 49,381 in 1988 to 38,960 in 1989, as high prices limited entry into the market. During the first 6 months of 1990, total sales numbered 13,778; for the entire year, sales are expected to fall to 27,500, and then rise in 1991 to 31,000.

In terms of the distribution of sales by price, there has been virtually no change between the first 6 months of 1989 and the first six months of 1990. Approximately one-quarter of all sales are above $300,000, and one-eighth are below $160,000.



SOURCE: CMHC, THBA, TREB and Brethour Research.

DECLINE IN NEW HOUSING

Like the resale market, the new housing market is also declining from its very active condition of the previous year. Starts averaged 40,000 units in the period from 1987 to 1989, 45 per cent higher than the average of 27,500 during 1970 to 1986. This strong activity was the result of high levels of migration into Toronto and strong consumer confidence that the economy would continue to prosper. With the turnaround in the economy, new starts are expected to decline by over 40 per cent in 1990 to a level of just under 20,000 units, rising slightly to 23,500 in 1991 as the housing sector leads the economic recovery. The number of single starts is expected to fall from 16,529 units in 1989 to 7,200 units in 1990 and then rise to 10,000 in 1991, while condominium apartment starts should fall from 12,382 to 5,300 units in 1990 and 5,800 in 1991.

Many of the new units will be at the lower end of the price spectrum, as builders seek to satisfy the demand for affordable family housing. Part of the demand for affordable housing will also be met by a significant increase in the number of assisted rental starts as projects approved by the federal and provincial governments begin construction. As the resale market starts to improve in the second quarter of 1991, the move-up market will create a demand for higher priced units as well.

The median price of newly completed detached single family homes was $285,000 in the first half of 1990, up 8 per cent from the $263,000 recorded in the last half of 1989, according to statistics from CMHC's Housing Market Information Survey. Ten per cent of newly completed single detached units in the first six months of 1990 had a price below $200,000, while 17 per cent were sold at a price above $500,000. This contrasts with the resale market where 21 percent of the single and semi-detached units were priced below $200,000 and only 6 per cent were priced above $500,000. These statistics exclude incentives being offered by many builders, such as reduced mortgage rates and various upgrades.

Prices for single detached units are expected to decline by 10 per cent for the rest of 1990 and the first part of 1991, in response to declining sales and a shift to lower priced product. The median price for a completed single detached unit is forecast to rise moderately by 5 per cent by the end of 1991. At the end of the first half of 1990, there were a total of 1,024 completed but unoccupied single detached units in the Toronto CMA, compared to 151 at the end of June 1989. This is still not a significant amount as the Toronto market absorbed an average of 1600 new single detached units per month over the 1984 to 1988 period.

MORTGAGE CARRYING COSTS

According to Statistics Canada, the median household income of homeowners in Toronto was approximately $62,000 in 1987. Assuming incomes increase at approximately the same rate as consumer prices, roughly 5.5 per cent per year, then the average income of owners in 1990 would be $72,000. Assuming a 40 per cent downpayment, an expenditure of 28 per cent of income on debt service, and a mortgage interest rate of 13.5 per cent, the average household could purchase a home priced at a $245,000. Roughly 60 per cent of all homes sold on the MLS in the first 6 months of 1990 were priced below this level. In 1989, with an average income of $68,500 and an interest rate of 12.15 per cent, the average household could purchase a house that cost $255,000. Sixty-six per cent of all MLS sales in 1989 were at or below this level. For 1991, interest rates are expected to fall to 12.5 per cent. If income grows by 5 per cent, the average household could afford a $275,000 home.

The average family income of renters under 65 years was $41,000 in 1987. At a growth rate of 5.5 per cent per annum, this should rise to $47,900 in 1990. Assuming a 15 per cent downpayment, the above renter household could afford a $115,000 home in 1990; approximately 150 MLS units were sold at or below this level in the first half of 1990. In 1989, a similar household could afford to purchase a unit costing $122,000 and 275 units were sold at or below this price in the first half of 1989. In 1991, this household will be able to afford a $130,000 home.

Address questions or comments concerning this report to Irwin Lithwick, Market Analyst, CMHC Toronto Branch, at 781-2451, or toll free at 1-800-387-8558.

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CMHC MARKET ANALYSIS REPORTS

CMHC is Canada's primary source of housing market information and analysis. The Market Analysis Centre in Ottawa works with market analysts and economists in each region of the country to produce informed assessments of economic and housing market trends at the national, regional and local level. The following market analysis reports are available:

NATIONAL HOUSING OUTLOOK

- A semi-annual report released in February and August of each year. The Outlook provides a short-term forecast of the national and provincial economies, and new and resale housing markets.

MORTGAGE MARKET TRENDS

- A unique, quarterly report providing current data and analysis on developments in Canada's primary and secondary mortgage markets. The report includes information on mortgage demand, market share, mortgage rates, MBS activity, new product development and other significant trends.

REAL ESTATE FORECASTS*

- Forecasts of local existing real estate markets for the major metropolitan areas across Canada, published semi-annually. Each report includes a forecast of the provincial and local economy, and key housing indicators such as sales, prices, listings, and mortgage carrying costs.

BUILDERS FORECASTS*

- Forecasts of the local new housing markets for all major metropolitan areas across Canada, published semi-annually. Each report includes a forecast of the provincial and local economy and housing variables such as sales, inventories, prices, land costs, and supplies of labour and materials.

RENTAL MARKET SURVEYS*

- These reports provide current rental statistics for the major urban markets across Canada. Produced semi-annually by local market analysts, the reports are based on surveys of apartment owners and building superintendents. Detailed data and forecasts are provided on rental and vacancy rates for apartments, row and public units.

LOCAL MARKET HOUSING REPORTS*

- Produced by local market analysts, these reports provide data and analysis of housing trends in specific regional and provincial markets.

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*The market analysis reports indicated are distributed by the CMHC Branch Office in your area.

If you would like to receive copies of any of the reports listed on a regular basis, please call Debbie Galipeau, Market Analysis Centre at (613) 748-2969 or order by FAX: (613) 745-1741.

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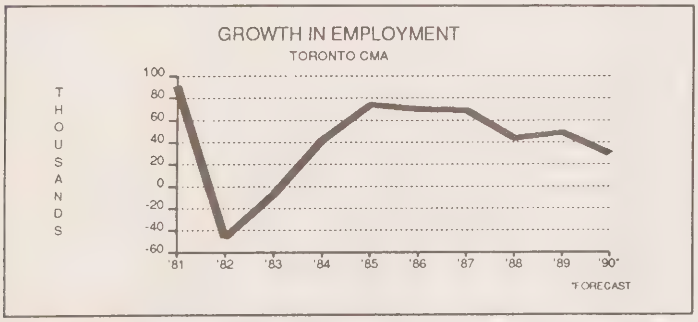
REAL ESTATE FORECAST TORONTO

Spring 1990

A SOFT LANDING FOR TORONTO

- Toronto's economy will slow as a result of slowing employment creation and declining interprovincial migration, although international immigration will increase. The median price of a single detached resale unit in 1990 will be $295,000 and a condominium apartment, $171,000.
- MLS sales will decline to 32,000 units.
- Housing starts are expected to decline 19 percent, reflecting the slowing economy.
- The rental market has eased slightly but remains one of the tightest in Canada.
- As interest rates fall, housing should become more affordable.

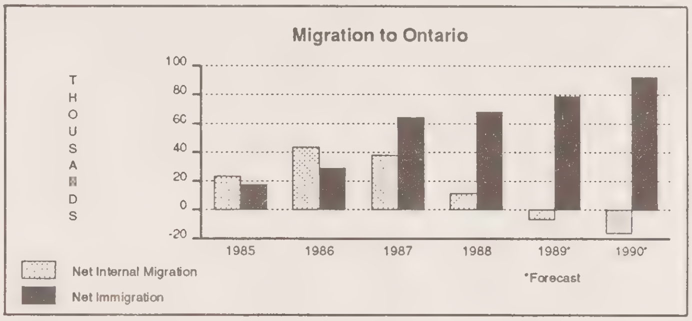
The economy of Toronto is expected to level off in 1990 after six years of employment growth. Since April 1983, total employment has grown by 395,000, 49,000 of these jobs being created in 1989. Most of the jobs created in 1989 were in the service sector, although on a proportional basis the rate of growth was highest in the public service and construction sectors, while employment in the trade sector actually declined. As a result of the forecast economic slowdown in both the United States and Canada, a decline in automobile sales, and falling retail sales, only 27,000 new jobs are likely to be created in Toronto in 1990, the lowest increase since 1983.



SOURCE: Statistics Canada/CMHC Forecast.

Interprovincial migration figures show a loss to Ontario of 3,000 in the first nine months of 1989. This compares to positive interprovincial migration figures of 11,000 in 1988 and 38,000 in 1987. However, net international migration remains strong. During 1989, net immigration to Ontario will total 79,000, compared to 68,000 in 1988. With the recent liberalization in Eastern Europe, total net international migration figures are likely to rise to 92,000 in 1990. Assuming 60 percent of these immigrants come to Toronto, and that the average number of persons per household is three, this will result in 18,000 additional households in 1990.

As a result of slowing employment creation, declining interprovincial migration but growing international migration, a slight rise in the unemployment rate is expected in Toronto. The unemployment rate, which stood at 3.1 percent in October 1988, rose to 4.1 percent by November 1989, and is expected to rise to 4.6 percent by November 1990.



SOURCE: Statistics Canada/CMHC Forecast.

MORTGAGE RATES TO EASE

In 1989, mortgage interest rates averaged 12.85 percent for a one-year term and 12.06 percent for a five-year term. After remaining largely unchanged throughout the second half of 1989, one-year mortgage rates at major banks and trust companies declined by a half of a percent and then increased three quarters of a percentage point in the first quarter of 1990.

Most forecasters expect a moderate decline in interest rates throughout the year. One-year rates are expected to decline by approximately one percentage point. Five-year mortgage rates are forecast to edge down in line with easing inflation and market rates but the decline could be moderated by inflationary expectations. The higher value of the dollar and recent increases in the Japanese and German interest rates could also limit this decline.

RESALE PRICES

The Toronto housing market has gradually moved from a strong seller's market at the beginning of 1988 to a forecast buyer's market in 1990.

Listings have increased from 12,000 in the first quarter of 1988 to 18,000 in the last quarter of 1989. As a result, the sales-to-listing ratio has declined from over 40 percent to under 15 percent. With the forecast of a continued economic slowdown, the market will likely remain a buyer's market in 1990, with a high number of listings and a low sales-to-listing ratio.

The total number of sales on MLS fell from 49,381 in 1988 to 38,960 in 1989, as high prices limited entry into the market. In 1990, resales are expected to fall further to 32,000.

The price of resale housing, according to the Toronto Real Estate Board, has remained relatively flat since February, as the

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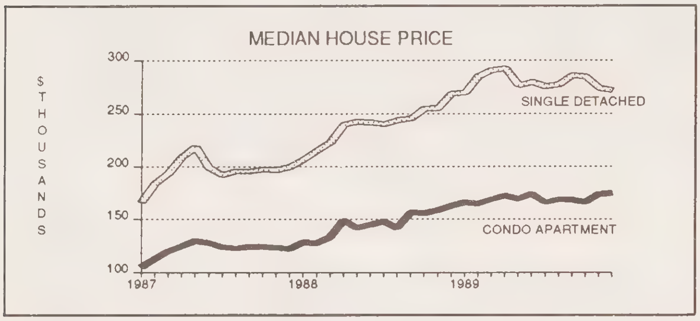
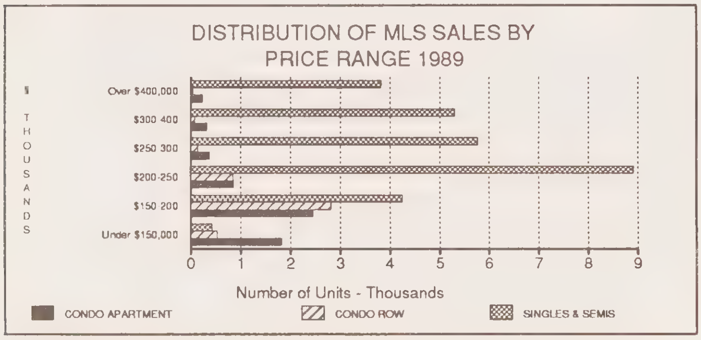
median price for single-detached units fluctuated between $270,000 and $290,000. In 1988, the median price for single-detached units was estimated to be $238,000. In 1989, the estimated median price of single-detached units was $282,000, or 18 percent higher than the previous year. For 1990, prices for single-detached units are expected to rise at roughly the rate of inflation, resulting in an annual median price of $295,000. Prices for expensive units, particularly resale units in recently completed or ongoing developments, are likely to show the greatest weakness.



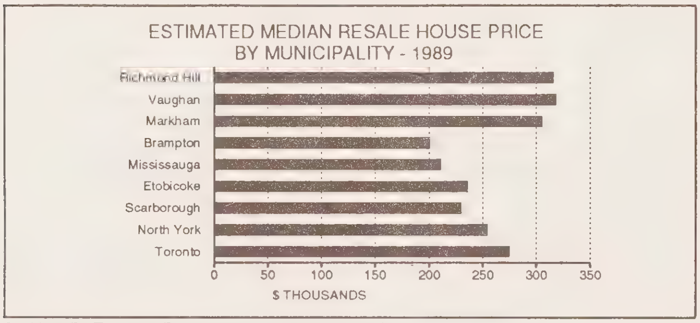
SOURCE: Toronto Real Estate Board.

The median price for condominium apartments, which rose by 17 percent from 1988 to 1989, is expected to increase by less than the overall market, largely as a result of the large supply of new units being marketed. For 1990, the median price of condominium units on MLS will be $171,000, up from the $169,000 in 1989.



SOURCE: Toronto Real Estate Board and CMHC.

Prices in the central corridor of the CMA, which from 1987 to 1989 grew most rapidly, are expected to show least growth in



SOURCE: Toronto Real Estate Board and CMHC.

1990. As this is the area with the highest-priced housing, the decline in demand will likely be felt most in this sector.

In terms of individual municipalities, the estimated median price for resales in 1989 was highest in the York Region area and lowest in Brampton, mainly because of the large number of condominium units in Brampton.

In 1989, 2,772 units sold below $150,000, and a further 9,517 sold at prices between $150,000 and $200,000. In contrast, 4,092 units were priced over $400,000

HOUSING STARTS TO DECLINE

Housing starts, which numbered 35,184 in 1989, are expected to decline by 19 percent in 1990 to a level of 28,450. The number of single starts is expected to fall from 16,529 units in 1989 to 12,000 units in 1990, while condominium apartment starts should fall from 12,382 to 7,250 units. A slight decline in condominium row housing, from 1,658 to 1,600 units is expected as builders seek to satisfy the demand for affordable family housing. The decline in starts will cushion the effect of the slowdown on the resale market.

There will be a significant increase in the number of assisted rental starts as projects approved by the federal and provincial governments begin construction.

In 1989, 38 percent of the starts of single-detached units occurred in York Region, up from 35 percent the previous year. In Pickering, starts of singles fell by 68 percent. Fifty percent of the multiple unit starts took place in Metropolitan Toronto, the same proportion as in 1988.

MORTGAGE CARRYING COSTS

The average family income of renters under 65 years was $41,000 in 1987. At a growth rate of 5.5 percent per annum, this should rise to $47,900 in 1990. Assuming a 15 percent downpayment, the above renter household could afford to purchase a home costing $142,000 in 1990; this price is 87 percent of the anticipated median price of condominium apartment units. In 1989, a similar household could afford to purchase a unit costing $122,000.

NOW IS THE TIME TO FIND OUT ABOUT NHA INSURANCE

CMHC mortgage loan insurance can help you provide the fast service buyers want when they are buying a house. Financing a home purchase is simple and affordable with CMHC insurance because buyers need to arrange only one loan and the insurance premium can be added to the mortgage balance upfront so that they do not need cash for the premium.

CMHC's fast service allows you to qualify more buyers because you can close deals faster. Some loans even qualify for telephone approvals.

To discuss how CMHC mortgage loan insurance can help you meet the needs of buyers, call Jill Metcalf at (416) 781-2451.

Address questions or comments concerning this report to Irwin Lithwick, Senior Market Analyst, CMHC Toronto Branch, at (416) 781-2451, or call toll free at 1-800-387-8558.

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TORONTO REAL ESTATE FORECAST

Autumn 1989

Government Publications

HIGHLIGHTS

1989 MLS sales volume of 38,000 units should decline by roughly 23 percent from 1988 levels, increasing in 1990 by 10 percent to 41,800 units.

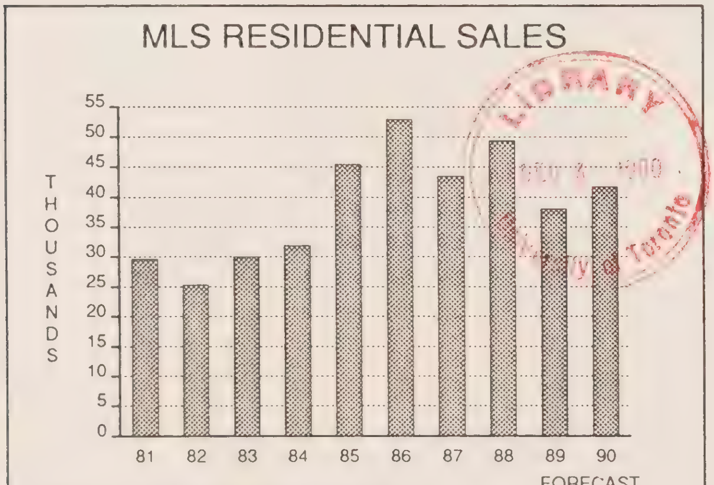
Resale house prices will increase to $275,000 in 1989, up 19.8 percent from the average of $229,635 in 1988, and increase again in 1990 to $298,000, up almost 8 percent from 1989.

Employment will increase moderately as the economy slows.

Housing affordability should ease slightly for first time and move up buyers but homeownership will still be out of reach for many.

HOUSING ACTIVITY TO STABILIZE

Lower net migration compared to previous years, slower economic growth and the continuing problem of affordability for first time buyers will help stabilize the Toronto housing market in 1989-1990. The sales of existing homes are expected to decline 23 percent from the 1988 level of 49,381 to 38,000 units in 1989. However, a more stable market in 1990 should cause sales volume to increase by 10 percent to 41,800 in 1990 from the 1989 level. Average year over year resale house prices will increase almost 8 percent to about $298,000 in 1990, after rising 19.8 percent from $229,635 in 1988 to $275,000 in 1989. Sales and prices should increase moderately this fall with additional increases in February, March, and April 1990. Housing starts will decline 13 percent in 1990 to approximately 30,000 units from the 34,800 units expected in 1989.



SOURCE: Toronto Real Estate Board; Forecast:CMHC.

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ECONOMIC ACTIVITY TO MODERATE IN 1990

Toronto continues to enjoy a low level of unemployment at 4.5 percent. However, with increases in the cost of living and the loss of potential inhabitants to more affordable areas surrounding Toronto, unemployment is expected to rise marginally to 5.3 percent in 1990. Unemployment will rise as job creation increases at more modest levels. Businesses will trim payrolls in order to sustain current levels of productivity rather than trying to expand and achieve higher levels of growth.

For the 1987 to 1988 period, employment increased by about 55,000 persons or 3.1 percent. Employment in 1989 and 1990 is expected to increase by 2.7 percent and 2.3 percent which will result in a net gain of 50,000 and 45,000 jobs respectively. Many of the jobs will continue to be in the service sector.

Net interprovincial migration fell dramatically from 36,370 persons in 1987 to 11,221 in 1988. Preliminary figures suggest the number of interprovincial migrants should decline to 3,000 persons in 1989 and to 1,200 persons in 1990. This is due to a slowing economy and a higher cost of living relative to other provinces. Net international migration to Ontario was 67,000 persons in 1988. This number is expected to peak at 69,000 persons in 1989, then drop slightly to 67,000 persons in 1990.

INTEREST RATES FORECAST TO DECLINE

The outlook for mortgage rates throughout the remainder of 1989 will depend on the course of economic activity and inflation. Interest rates peaked in the second quarter of this year and the consensus of forecasters calls for a downward trend for the remainder of the year in response to weaker economic growth and a subsequent easing of inflationary pressures.

Although, there are signs that interest rates are already moderating in response to slower economic growth, inflationary pressures and expectations are not expected to disappear in the short-term, and will moderate the magnitude of the decline in rates. Similar to the other rates, mortgage rates are projected to decline throughout the remainder of this year. One year rates will decline to 11.00 per cent while five year rates will decline to 11.5 percent. The decline in short term rates will be triggered by substantially weaker growth in the third quarter and an easing of inflationary pressures by the fourth quarter. Mortgage interest rates will continue this downward trend throughout 1990 with one year rates declining to approximately 10.25 per cent and five year rates to 11.25 per cent.

MORE BALANCED MARKET IN 1990

In the last two years, Toronto has seen large month-to-month increases in average resale prices as demand surpassed supply during most months. The largest price increase was $20,300 between January and February of 1989. Climbing interest rates and perceived affordability problems for first time buyers prompted a surge of house-buying in early 1989 as some saw this as their last chance to enter the market. But with interest rates easing and declining consumer confidence, sales have dropped off approximately 23 percent during the first seven months of the year compared to last year.

Characteristically, the summer months have shown an abundance of listings. The summer of 1989 was unique in the sense that many potential sellers put their homes on the market to determine demand at the price peak. Some vendors had to meet prearranged closing dates on houses they had already bought. Other sellers chose to leave the market because of lower price increases expected during the last half of 1989.

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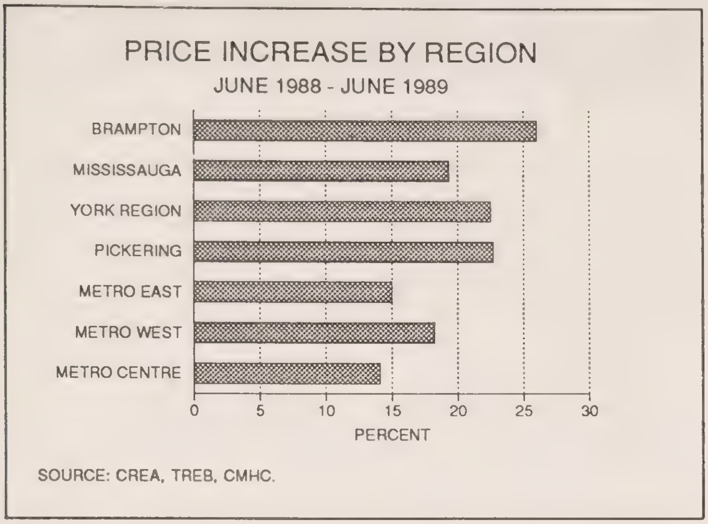
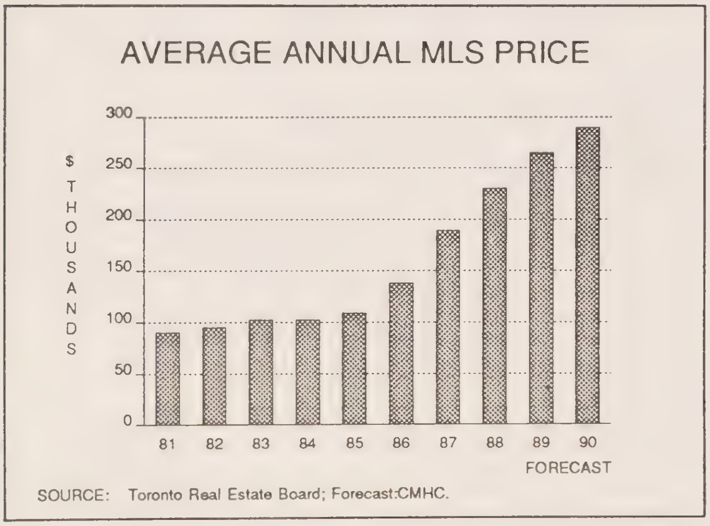
These factors resulted in a market with a great deal of choice and greater negotiation power on the part of buyers. In 1990, the resale market should be more balanced, with less dramatic fluctuations in price and volume in the usual peak times throughout the year (February-April, September-October).



Quarterly average resale prices from June 1988 to June 1989 have increased in all regions within the Toronto CMA. The highest price gains have been in Brampton (26.0 percent), Ajax-Pickering (22.7 percent), and York Region (22.5 percent), reflecting increased demand for more affordable types of housing in areas with improved transportation access and proximity to the workplace.



All types of units have experienced significant price increases over the last year. From June 1988 to June 1989, the quarterly average resale price of a single-detached home was up 22.9 percent (from $271,800 to $333,423) while semi-detached homes were up 14.6 percent (from $205,055 to $234,948).The average resale prices of singles and semi-detached units are expected to increase around 12 percent with slightly higher increases east and north of Toronto. These areas should be of more interest to buyers as highway improvements have been announced by the Province and extended GO Train service to Oshawa will start in 1991.

PERIOD OF ADJUSTMENT FOR THE TORONTO CONDOMINIUM APARTMENT MARKET

After a period of high demand, the condominium apartment market is heading toward a period of oversupply in 1990. From January 1987 to May 1989, 30,953 condominium units were started in the Toronto CMA while only 17,617 units were completed in the same period. Approximately 13,500 units have yet to be completed while many others are being planned and advertised. Some favourable buying opportunities should prevail as interest rates decline and prices stabilize and potentially decline by as much as 10 percent in 1990. Quarterly average resale prices of condominiums from June 1988 to June 1989 have increased by 18.9 percent for townhouses ($158,083 to $187,682) and 19.5 percent for apartments ($169,695 to $202,716).

HOUSING STARTS TO DECLINE IN 1989 AND 1990

Housing starts are expected to decline 10 percent from the 1988 level to 34,840 units in 1989. Single starts should decline by 17 percent in 1989 to 15,750 units. In 1990, there will be a further decline in the number of single starts, down 14 percent to 13,500 units. In addition, presold condominium units now being completed will dampen the once hot condominium market and starts should decrease 28 percent from an estimated level of 11,750 in 1989 to about 8,500 units in 1990. These declines will coincide with a slower economy, modest gains in employment, a slightly higher unemployment rate, and lower net migration levels.

MORTGAGE CARRYING COSTS TO EASE

The average household income in Toronto is estimated to be approximately $51,000 in 1989. For the move-up buyer, an annual income of $68,100 is required to purchase an average priced home of $275,000 in 1989. In 1990, the income required for an average priced home of $298,000 will be $68,800. For the first time buyer, an annual income of $68,700 is required to purchase an average-priced condominium townhouse of $185,000 in 1989. In 1990, the required income for a $202,000 condominium townhouse will be $70,000. These estimates take into consideration forecasted annual 3-year mortgage interest rates, a 25-year amortization period, a 30 percent gross debt service ratio, and down payments of 10 percent for first time home buyers and 40 percent for move-up buyers.

Although the first time buyer and move-up buyer will be paying more for a house in 1990, lower interest rates and increases in wages will ease mortgage carrying costs. The average household income of $51,000 is well below the required income for average priced homes. Generally, the market has been driven primarily by move-up buyers who have built up equity in their previous home.

CMHC SECONDS MAY ANSWER FINANCING NEEDS

NHA second mortgage loan insurance could be the key to financing for a client who wants to buy a house by assuming an existing mortgage.

If a buyer is assuming an attractive first mortgage, it makes good sense to use CMHC-insured second mortgages to top off the financing arrangements. Second mortgage insurance is available at rates which are competitive with first mortgage rates.

Find out how CMHC second mortgage insurance and other CMHC mortgage insurance products can help you make the right financial arrangements for your clients. In Toronto, call Jill Metcalf at 416-781-2451.

For further information on the Toronto Housing Market please call the Market Analyst, at (416) 781-2451.

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TORONTO REAL ESTATE FORECAST

Spring 1989

HOUSING ACTIVITY TO MODERATE IN 1989

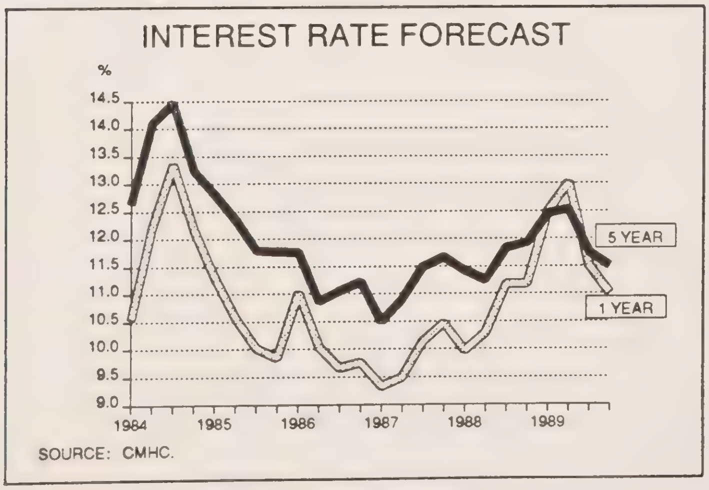
Stepped down economic growth and more moderate net migration levels will exert a stabilizing influence on the Toronto housing market. More modest sales volumes and rates of price increase are anticipated. In 1989, sales of existing homes are expected to decline 10 percent from 1988 levels. A 12 percent increase in average house prices from December 1988 levels is forecast for year end. Starts in 1989 are expected to decline about 8 percent.

The housing market in 1989 will continue to be dominated by the move-up market and by investors active in the condominium apartment market.

ECONOMIC GROWTH TO CONTINUE BUT AT A SLOWER PACE

Toronto's diversified economy, while continuing to outperform other areas of Ontario and Canada, will moderate during the latter half of 1989. Factors contributing to this slowdown include a reduction in migration to Toronto (particularly from other provinces), lower rates of job creation, a more moderate pace of consumer spending, a low rate of personal savings, and a reduced level of investment by industry. A net inflow of 45,000 persons to Toronto is expected in 1989, down moderately from 1988.

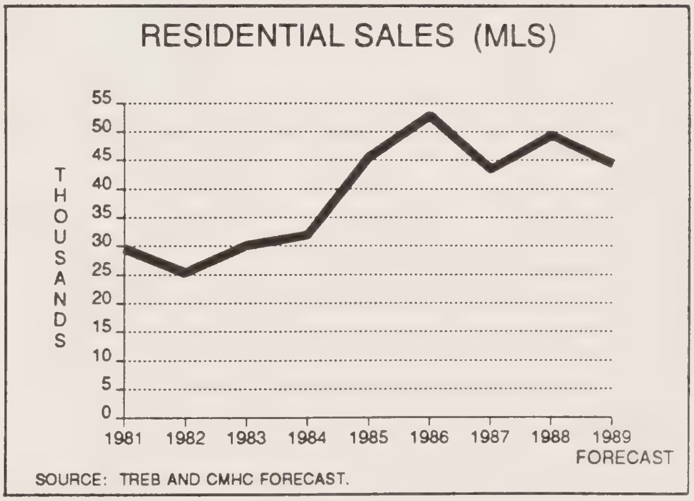
For the 1987 to 1988 period, employment increased by about 55,000 or 3.1 percent, a slight decline from the 3.8 percent growth experienced from 1986 to 1987. Employment in 1989 is expected to increase by about 2.7 percent for a net gain of 50,000 jobs. Many of these jobs will be in the lower paying service sector. In December 1988, the unemployment rate continued to be the lowest in the country. The unemployment rate is expected to remain in the 3.6 to 3.8 percent range this year.



MORTGAGE RATES INCREASING IN FIRST HALF OF 1989

Mortgage rates on all terms, which are currently at their highest levels in over three years, will continue to increase through the remainer of the first half of 1989 in line with the steady upward trend in money market rates as monetary policy continues to tighten. The increase in mortgage rates, relative to other interest rates, may be moderated to some extent by the fact that lenders will need to place their large inflows of RRSP deposits into suitable assests such as mortgage loans. Nevertheless, the five-year (closed) mortgage rate will increase to peak at 12.75 percent in the second quarter. The one-year (closed) mortgage rate will also increase further before peaking in the 13.00-13.25 percent range during the second quarter.

A moderation in economic growth by the third quarter is expected to allow some easing in monetary policy and subsequently mortgage rates should start to decline gradually. By year-end 1989, mortgage rates are expected to decline by between 125 to 150 basis points from first quarter levels.



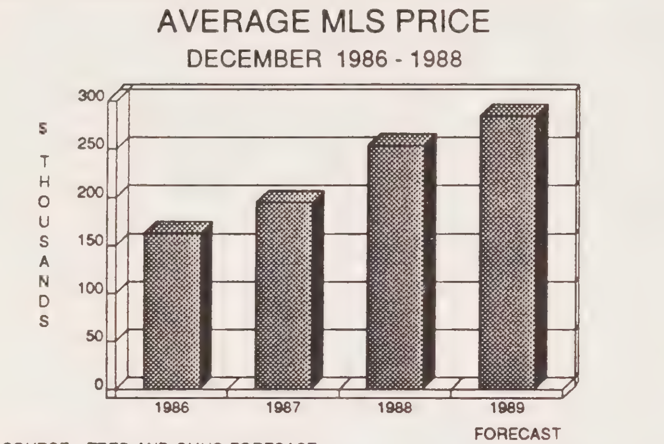
PRICE INCREASES TO MODERATE IN 1989

According to Toronto Real Estate Board figures, the average MLS price of resale housing in 1988 surpassed CMHC's previous expectations and climbed 30 percent to $254,112 in December. A strong sellers' market last year was supported by lower interest rates in the first half of the year and the continued strong performance of Toronto's economy. Sales volumes in 1988 totalled 49,381,an increase of 14 percent from 1987.

Price gains were highest for single and semi-detached units followed by condominium apartments. Central areas in

Metropolitan Toronto had the highest relative price gains followed by York Region and Brampton while the western region of Metropolitan Toronto had the lowest rate.

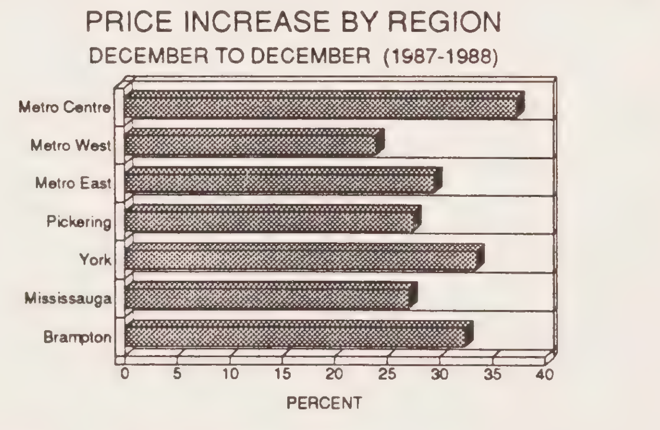
In 1989, the resale market is expected to move toward a more balanced position. A price increase of 12 percent is expected by December 1989, resulting in an average MLS house price of about $285,000. Interest rates increases, high house prices and the anticipated moderation in the economy are making buyers in Toronto more cost conscious than in the recent past. MLS sales are forecast to decline 10 percent to roughly 44,500 sales.



SOURCE: TREB AND CMHC FORECAST.

Entry level home buyers have been largely priced out of the single-detached housing sector in Toronto. Many households now either seek relatively more affordable homes located in the Oshawa CMA and peripheral Toronto locations or are willing to substitute multiple unit housing forms. In this respect, condominium row units are likely to have the highest rates of price increase in 1989 because they are relatively more affordable than singles. A lower increase is expected for condominium apartment units due to the anticipated oversupply of newer units.

All areas should have roughly comparable rates of price increase as employment opportunities have become decentralized throughout greater Toronto. However, there will be greater upward pressure on central areas in Metropolitan Toronto due to further office development and the higher amenity level found in core areas.



SOURCE: TREB (CMHC DEFINITIONS USED).

STRONG LEVEL OF STARTS ACTIVITY TO CONTINUE

Housing starts in the Toronto CMA totalled 38,792 units in 1988, a decline of almost 17 per cent from the 1987 level. Singles starts dropped 31 percent while multiples were up 5 percent. Housing starts in 1989 are expected to decline about 8 percent to roughly 35,600 units.

Both 1988 starts and those forecasted for 1989 are well above the average level of activity over the past decade. A significant decline in starts is expected after 1989 as effects of the economic slowdown become more apparent. This lag is due to now well entrenched preselling practices.

There is some indication the condominium apartment market is now entering a vulnerable phase. The recent high level of recent condominium apartment construction with a large investor component could make these units increasingly difficult to rent at rates which cover carrying costs, especially as the economy slows. Peripherally located units with lower levels of accessibility will be affected most.

HOUSING CONTINUES TO BECOME LESS AFFORDABLE

Access to homeowneship is becoming increasingly difficult for first time buyers. In December 1987, the average MLS condominium townhouse sold for nearly $136,500. A family income of $46,000 was required to purchase this typical house with an 80 percent mortgage, a mortgage interest rate of 10.7 percent and assuming a household can devote 30 percent of its income towards principal, interest and tax payments.

By the end of 1989, the average condominium townhouse price is expected to increase about 14 percent to $199,500. Following the above example, but with a mortgage interest rate of 11.75 percent, a family income of almost $69,000 will be required.

RAPID APPROVAL FOR CMHC MORTGAGE LOAN INSURANCE

The majority of mortgage insurance applications submitted to CMHC's Toronto Branch receive approval in less than 24 hours. Immediate Telephone approvals are available under CMHC's PRIME Program. This applies to existing single-family homeownership units having a loan to value ratio of 80 percent or less provided the equity is $10,000 or more. Applications may also be forwarded to CMHC's Toronto Branch by FAX (416-781-4473). When time is of the essence for loans not qualifying under the PRIME Program, CMHC Business Development Officers are available to underwrite applications right in the lenders office.

Please call Jill Metcalf, Underwriting Department at 781-2451 or toll-free at 1-800-387-8558 for further information.

Questions or comments concerning this real estate forecast may be addressed to the market analyst, CMHC-Toronto branch (416)-781-2451 or toll free 1-800-387-8558.

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TORONTO REAL ESTATE FORECAST

Spring 1996

Synopsis

- The Toronto real estate market has slowed in recent months, but lower mortgage rates should cause a stronger spring market.
- The Toronto economy has been in recovery since late 1994. Spending cuts by government are limiting prospects for 1996.
- In a slowing economy, the housing market will likely weaken in the second half of this year.
- For 1996, sales of existing homes will slip marginally from 1995's 39,273, to 38,000. The average price will decline, to $198,000 from $203,028 in 1995.
- Homeownership is accessible at incomes as low as $40,000 to $45,000.
- Consumers have considerable power to negotiate mortgage terms - and mortgage rates.

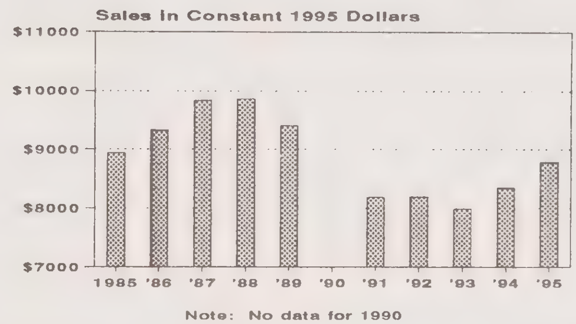
Economic recovery - but an uncertain outlook

Employment is the key factor that determines the long-term performance of the housing market. We begin by exploring the outlook for Toronto's job market in 1996.

Toronto's economy has finally shown definite signs of recovery, as robust job creation began late in 1994. After 5 years of lingering recession, a very encouraging 80,000-90,000 jobs have been created since September 1994. Retail spending data also confirm that the Toronto economy has improved. Using Statistics Canada data on retail trade, CMHC estimates that retail spending per adult in Toronto (and after adjustment for inflation) increased by about 10% in 1994 and 1995. These spending figures confirm that consumers have more income - just as importantly, they also suggest that the mood of consumers has improved.

With these improvements, however, Toronto still has not regained all of the losses suffered during the recession. About 175,000 jobs were lost during the downturn. Three-quarters of these losses have now been regained. In terms of consumer spending, the following graph shows that spending per person has improved, but is still 7% below the average seen in the second half of the 1980's.

Retail Trade Per Adult in Toronto CMA Recovery Started in '94



Sources: Statistics Canada/CMHC

A more detailed study of the the Toronto job market shows that, in recovery, there have been winners and losers.

Expanding Sectors

Manufacturing has been the key to the local recovery, as a stronger US economy is buying more of Toronto's goods. This includes transportation products (mainly automotive) and office equipment. During 1995, however, manufacturing growth was slow and business confidence is reportedly becoming weaker. Falling interest rates should revive the sector as 1996 progresses.

Transportation employment is related to manufacturing activity. It grew in 1994 as more goods were shipped in and out of Toronto's factories. It will expand again later this year.

Employment in **consumer and business services** is growing the most rapidly. This may be related to increasing out-sourcing of services (companies buying professional services from independent contractors, rather than providing them in-house). But, this sector also includes education, health, and social services - these segments will not grow in 1996.

Declining Sectors

Construction was hit very badly during the recession. The real value of building permits fell by almost 60% and 30,000 to 40,000 construction jobs were lost. Activity rallied during 1994, as housing starts increased and manufacturers built new facilities. Construction tailed off again in 1995, especially for housing. For 1996, only modest growth is expected, mainly in the non-residential area.

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Government employment has fallen. With recent announcements from the provincial government that it intends very sharp spending cuts, further job losses are inevitable. With deep cuts also likely in related areas (education, health, and social services), the **consumer and business services** industry may also see lower employment levels by the end of the year.

Stable Industries

Employment in **wholesale and retail trade** has been stable. Sales have increased, which would normally generate new jobs, but intense competition is forcing these businesses to hold-the-line on staffing.

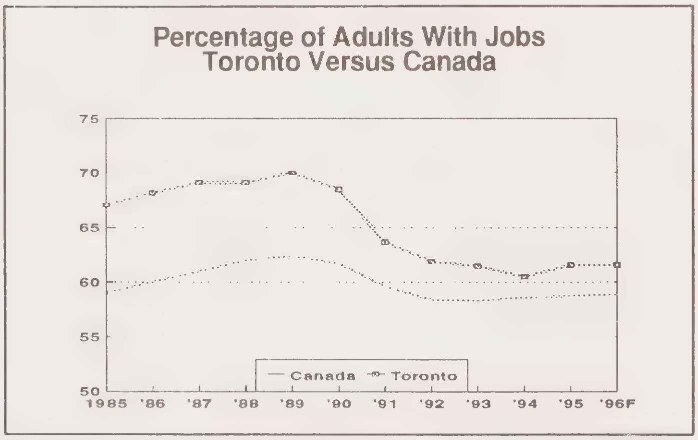
Finance, insurance and real estate is stable, as a whole. Much of the industry is restructuring (banking and real estate), but financial management services are expanding.

Weaker growth in '96

The job outlook for this year is mixed. Private sector employment, especially in goods-producing industries, will expand, as the Canadian and US economies respond to lower interest rates. However, the Toronto economy depends mainly on service industries (government, finance, retail trade, professional services, etc.). Growth prospects are more modest in service industries. Most importantly, the government sector will see substantial job losses. With this mix of positives and negatives, the outcome is difficult to call, but it is very likely that there will be little or no additional job growth this year. It is possible that the pending upturn in the goods-producing industries (likely to occur this summer) will happen at the same time as the cutbacks in the government sector. The result would be a flat level of employment for most of the year.

Slower economy reduces population growth

The best indicator of the local economy is the percentage of adults who have jobs (the employment:population ratio). This shows that during the 1980's Toronto had one of the strongest job markets in the country. Toronto's ratio was normally about eight percentage points above the rate for all of Canada. The ratio fell sharply in Toronto during the recession. The rate for all of Canada also fell, but not as sharply. As a result the Toronto versus Canada gap has been reduced, and Toronto's advantage is now only 2 or 3 percentage points.



Sources: Statistics Canada and CMHC Forecast

During the 1980's, Toronto's very strong job market made it a powerful magnet for job-seekers, resulting in high levels of in-migration from other parts of the country. Housing demand was very strong, to accommodate the expanding population. Because of the weak economy, net migration is now only about one-half of the level seen during the late 1980's.

The rate of population growth has slowed. More importantly, the nature of that growth has changed. This is a significant factor in the Toronto housing market.

Currently, the largest component of growth is immigration from other countries, instead of movement from other parts of Canada. Although the Toronto area has about 15% of Canada's population, it receives 35-40% of all immigrants. Immigrants are attracted to Toronto by its ethnic diversity - they perceive that Toronto offers the greatest opportunities to establish networks and get ahead.

Immigrants frequently arrive with limited resources. They often form large household groups, pooling their incomes and sharing costs. This means that new immigrants have lower housing demands than other Canadians, and they are most likely to live in rental accommodation rather than in homeownership.

Between 1986 to 1991, an average of 33,400 households were formed per year. Household formation has been weaker in the 1990's, because of the recession, but also because of the changed nature of population growth. CMHC estimates that household formation is currently about 18,000 per year.

Interest rates

Employment determines long-term demand for housing, but in the short-term mortgage rates are most important. They influence consumers' choices between owning and renting.

There are good prospects for additional cuts in mortgage rates due to a weak economy and easing inflationary pressures. The one-year rate is expected to stand around 6.00-6.50% by the end of the summer while the five year rate should be in the range of 7.00-7.75%. Rates should start rising at the end of 1996.

Consumers in control

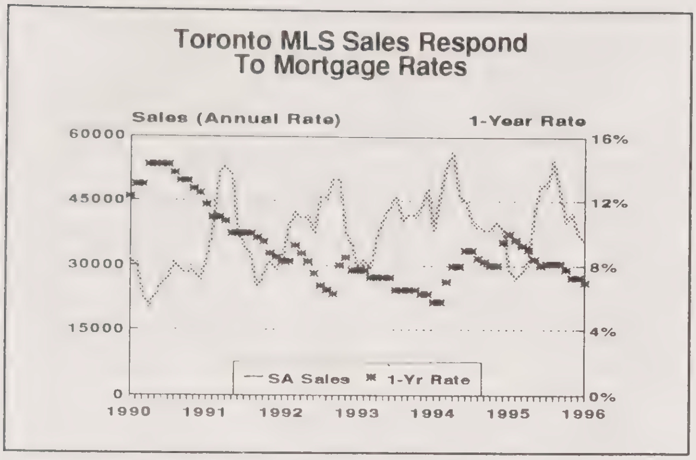
The mortgage market is extremely competitive. Consumers have leverage to negotiate the terms of their mortgages, and even their mortgage rates. For example, during the opening weeks of 1996, borrowers in Toronto who choose 5 year terms are negotiating mortgage rates that average 40 basis points below the rates officially quoted by lenders. They are saving an average of $40 per month, based on a $150,000 mortgage.

This, and other insights into Toronto's mortgage and housing markets, is available in a new report called "Who's Out There?", from CMHC's Toronto Branch. The report provides a portrait of borrowers, and the decisions they make.

Affordability - the key to the housing market

During the second half of the 1980's the key factor in the housing market was very rapid job creation, which stimulated movement into the area, a growing population, and strong household formation. Housing affordability was poor and a deterrent to homebuying, but population growth caused record levels of home sales. In contrast, in the first half of the 1990's, a weak economy resulted in slow population growth. Meanwhile, the cost of buying a home fell, due to reductions in house prices and falling interest rates. The improvement in affordability allowed thousands of renters to shift to homeownership. As the following graph shows, there were four waves of rising home sales through MLS[1] during the first half of the decade. Each of the waves was caused by falling mortgage rates and the associated improvement in affordability. (The sales figures have been seasonally-adjusted to show the underlying trends.)

[1] Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association.

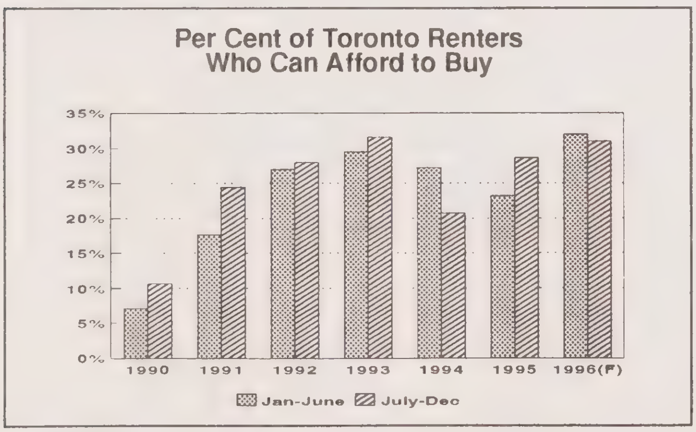


Source: Toronto Real Estate Board/CMHC

During late 1995 and early 1996, the fourth wave has clearly lost its momentum. Sales peaked in August 1995. Expressed as a "seasonally adjusted annual rate" or "SAAR", August sales were at an annual rate of 55,000 SAAR. Activity has slowed. By January 1996, the rate slumped to 36,000 SAAR. Considering the current level of interest rates, and the fact that rates have dropped substantially, this slowdown is not encouraging.

The slowdown is partly due to unusually cold temperatures this winter, but consumer confidence has also faltered. When the weather improves the market should respond to lower interest rates. We expect the sales rate to rise into a range of 40,000-45,000 for the spring market. However, most of the declines in interest rates are now over. After rates stabilize, the market will slow, to 30,000-35,000 SAAR. In short, we will see a fifth wave in 1996, but this one will be shallow and short-lived. Despite very good affordability, economic uncertainty will impede the market in 1996.

Combining a good spring market, followed by a slowdown, CMHC expects that MLS sales will total 38,000 in 1996, down marginally from the 39,273 recorded in 1995.



Source: CMHC

First-timers lead the market

So far during the 1990's, Toronto's housing market has been dominated by first time-buyers. In the last five years, 60% of all homebuyers in Toronto have been first-timers. A normal rate would be 40%. First-timers were locked out of the market during the boom (1985-89), by a combination of escalating house prices and rising interest rates. Since the peak, house prices have fallen by as much as 30% and interest rates have tumbled. At today's mortgage rates, an income of $40,000 to $45,000 is required to buy a modest starter home in Toronto. This is much better than in the late 1980's, when the required income was $75,000 to $80,000. This change has made homeownership accessible for thousands of renters, including many who are at fairly late stages in their working lives.

Today, there is still a sizeable pool of renters of all ages who could potentially become homeowners. Many are staying in rentals by choice, but there are many renters who are not aware that they can now afford to buy. Surveys show that renters often under-estimate the cost of a mortgage, or the income required to carry it, and often by considerable amounts.

Industry faces a challenge to educate renters on the possibility of homeownership.

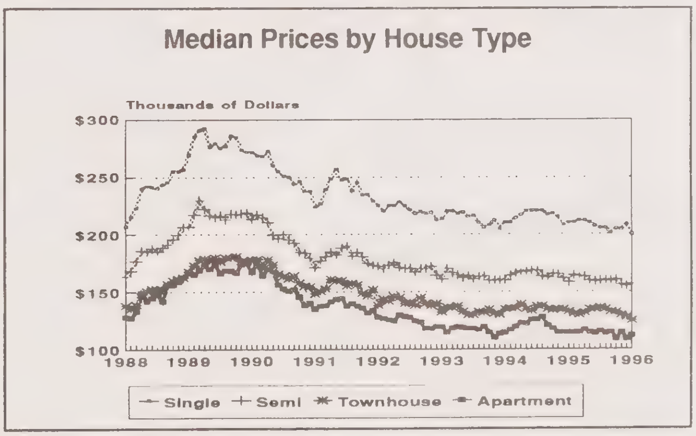
For many first-time buyers, an "accessory suite" can make homebuying feasible. With a falling vacancy rate in Toronto's rental market, there is a need for more basement apartments, and owners are finding it easier to attract good tenants.

Due to improved affordability, great opportunities also exist for the move-up buyer. But, unlike the first-time buyer market, the move-up market in Toronto has been weak. Potential move-up buyers are hesitant to take on the larger mortgages that would be associated with moving-up, because of uncertainty about jobs and because they sense that there is no urgency to buy.

The best prospects for move-up buying are people who made a first-time purchase during 1991 to 1993. Often fairly young, they may have seen changes in their family situations and need more space. If they have also seen some income growth and have confidence about their jobs, they can afford to buy "more house", because of lower interest rates.

House prices

The MLS house price has slipped in recent months. As of January 1996, it was $195,169, compared to the 1995 average of $203,028. The following graph shows that median prices for the four major house types slid in the second half of 1995, and all of them ended 1995 at lower levels than they started.



Sources: Toronto Real Estate Board

There are at least three reasons for this.

- Following the very weak spring market last year, there was some price erosion, mainly during the summer;
- House prices usually follow an annual cycle. As sales increase during the spring, prices rise marginally. As the market settles down during the summer, some of the price gains are lost. December and January normally have the lowest prices of the year; and
- With recent drops in interest rates, the market is dominated by first-time buyers, so that a large proportion of sales is low end homes.

Listings - a big question for '96

Virtually all of our real estate contacts are telling us that listings are in short supply. With limited interest from move up buyers, fewer homes are being put on the market. This raises the possibility that shortages could lead to price increases in the coming months. A similar situation developed in the spring of 1994 - a surge in sales occurred at a time of low listings and prices were bid up by 5%. On balance, however, we believe that this is less likely to occur in 1996: the spring 1994 market was given an extra boost because mortgage rates increased - buyers rushed into the market and moved quickly to close deals; this spring, buyers will have more time to shop and negotiate - the market will be more sedate and any bid-ups will be modest. We should also note that after the mini-boom ended in the spring of '94 the price gains were given back.

During the spring the average price will recover from its winter-time decline, as it normally does. We will also see more "second round" sales, as people who sold to first-timers make their move up in the market. But, prices will likely slide again during the summer and fall. In part, this will be a normal seasonal move, but we may also see some erosion of values, due to the slowdown in sales.

For all of 1996, CMHC expects the MLS average price to be $198,000. While this will be lower than the 1995 average ($203,028) it will be slightly higher than the current level.

CMHC's analysis shows that the best predictor of price movements in the housing market is the sales-to-listings ratio. A ratio above 30% indicates a "sellers' market", in which prices are likely to rise. A "buyers' market" occurs when the ratio is below 20%, and prices are likely to fall. A ratio between 20-30% indicates a "balanced market", when prices tend to be stable. (Readers should note that our measure of listings is taken from the Toronto Real Estate Board's "Market Watch" report, and is the category "listed", from pages 3A and 3B.)

For 1996, we expect a "balanced market" for the spring. As first-time buyers respond to affordable mortgage rates we will see the sales-to-listings ratio in the mid to high-20's. As sales fade, listings will increase. The ratio will fall, reaching or falling below the 20% threshold that signals a "buyers' market".

The new homes alternative

Increasingly, builders are offering products that are not available in the existing market, and are expanding the range of modest products that are suitable to first-time buyers. Builders are also offering more flexibility, including negotiation on price, mortgage buy-downs, and the opportunity to customize homes before they are built. Offerings include single-detached homes priced under $200,000, and lower cost attached housing options (semi-detached homes, typically from $140,000, and town-homes priced from $130,000). New offerings in 1996 are expected to include innovative loft-style condominiums in old industrial and commercial buildings, in central locations.

Forecast Summary Toronto Market

	1994	1995	1996*
Existing House Market			
MLS[1] Sales	44,237	39,273	38,000
Average MLS Price	$208,921	$203,028	$198,000
MLS Average Monthly Listings[2]	13,591	14,528	15,000
Renter Households That Can Afford to Buy (July-December)[3]	20.7%	28.7%	31.0%
Forecasting Assumptions			
Mortgage Rate (3 year)	8.99%	8.81%	7.27%
Employment (Year end)	2,065,000	2,143,000	2,140,000
Household Formation	18,000	18,000	18,000
Net Migration	37,000	37,000	37,000

Sources: Toronto Real Estate Board, Statistics Canada, and CMHC. * Forecast by CMHC

[1] Multiple Listing Service is a registered certification mark owned by the Canadian Real Estate Association.

[2] For consistency with sales data, listings are for "single-family residential" from page 3B of the Toronto Real Estate Boards's "Market Watch" report.

[3] Canadian Housing Markets; assumptions: Average starter home price, 10% down-payment, 32% GDS, 3 year mortgage rate.

Housing market information from CMHC

As the federal government's housing agency, CMHC provides a full range of information and analysis on the housing market in Toronto and other areas across Canada. Topics covered include homeownership markets (new and resale), the rental market (rents and vacancy rates), mortgage markets, and demographics. In the spirit of government restraint, some of our services and reports are now priced, but we are available to provide free, unbiased information to consumers and industry. For further information on housing markets, call 416-789-8708.

For further information on anything in this report, please call Willard Dunning, Senior Market Analyst, CMHC Toronto Branch at 416-789-8709.

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TORONTO
REAL ESTATE FORECAST

Fall 1995

Synopsis

- The Toronto real estate market showed considerable strength during the summer of 1995, as lower mortgage rates are opening the door to homeownership.
- The Toronto economy is sending out mixed signals. Watch for a modest recovery to resume during 1996.
- The housing market should be stable in 1996, with normal seasonal variations, but without the wild swings that have characterised the 1990's so far.
- For 1996, sales of existing homes will rise by 5% from 1995, to 42,000. Prices will be stable, at an average of $204,000.
- Homeownership is accessible at incomes as low as $40,000 to $50,000.
- Consumers have considerable power to negotiate mortgage terms - and mortgage rates.

Mixed signals from the economy

After 5 years of weakness, Toronto's economy finally broke out of recession during the second half of 1994. Key economic indicators showed strong improvements, although the evidence shows that the Toronto economy has not yet regained all of the losses that were incurred at the start of the decade. More recently, increases in interest rates during 1994 and again at the start of this year have caused the recovery to pause.

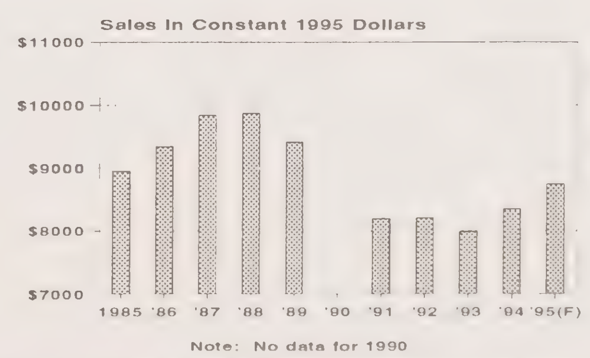
Employment - Employment is the key factor that determines the long-term performance of the housing market. The Toronto Census Metropolitan Area (CMA) lost 176,000 jobs during the recession, or 8.1% of all jobs. Since then, about 100,000 jobs have been recovered, and most of this recovery occurred during the second half of 1994 and early 1995. Jobs have been created in manufacturing and construction. Consumer spending has also increased, but this has not yet resulted in more jobs in the retail trade sector. Since the spring the level of employment has been essentially flat.

Manufacturing - Initially, the recovery was due to increasing exports to the US. This stimulated investment in new industrial facilities, and more hiring. However, increases in interest rates in both the US and Canada at the start of this year caused a slowdown of our exports. Interest rates have fallen in recent months, which will stimulate exports. It will be at least a few more months before we see further growth in manufacturing: in the first half of the year, manufacturers were forced to stockpile unsold goods. As demand picks up later this year, those demands will - initially - be satisfied out of inventories. We need several months of stronger demand before manufacturers actually start to increase production and hire more workers.

Construction - During 1994 the improving economy stimulated a strong expansion of construction, especially for new housing, but also for new industrial facilities. Construction spending increased by 23% in 1994, but remains well below pre-recession levels. More recently, construction has fallen sharply in the residential area, due to higher mortgage rates. The non-residential sector has slowed marginally, mirroring the temporary pause in manufacturing activity. In consequence, employment in construction increased during 1994, but has fallen so far in 1995. New home sales have rebounded recently, so that this sector of the economy will return to a gradual recovery during 1996.

Consumer spending - With more job opportunities, relatively low interest rates, and a revival of confidence, consumers increased their spending during 1994. CMHC estimates that on a per person basis, and after adjustment for inflation, consumer spending in the Toronto CMA increased by almost 10% between the start of 1994 and the start of 1995. But, spending per person is still 7% lower than it was during the second half of the 1980's. This increased spending is not resulting in new hiring in the trade sector - in fact, employment is falling, as intense competition is forcing retailers to control their costs.

Retail Trade Per Adult
Recovery Started in '94



Sources: Statistics Canada and CMHC forecast

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Government - All levels of government are reducing their spending and cutting jobs. This will continue to limit job growth during 1996.

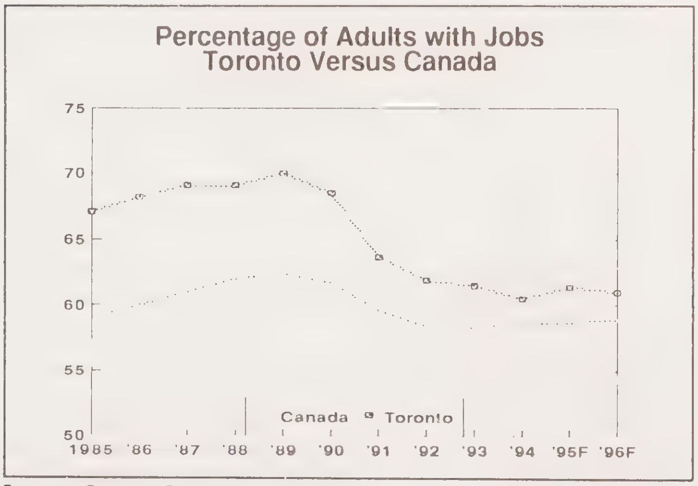
Modest growth for '96

Prospects are quite favourable in goods-producing industries, but the Toronto CMA economy depends mainly on service industries (government, finance, retail trade, professional services, etc.). Growth prospects are more modest in service industries. In fact, for many services industries - in both the private and public sectors - economic restructuring remains an ever-present reality. For a large segment of the population, this will put a damper on consumer spending.

Because of this mix of positives and negatives, it is difficult to predict the timing and strength of recovery in Toronto. The most likely scenario is for modest job growth. After 80,000 jobs were created in late 1994 and early 1995, an additional 30,000-40,000 jobs might be created by the end of 1996. Prospects in Toronto are very dependent on growth in the US and the rest of Canada, in order to create demand for our exports. It also appears likely that recovery in Toronto will continue to lag behind the rest of the country, as it has for the last 5 years.

Slower population growth

It is enlightening to compare the Toronto and Canadian economies by looking at the percentages of adults who have jobs (the employment:population ratio). During the 1980's, Toronto's ratio was normally about eight percentage points above the rate for all of Canada. The gap has closed, and Toronto's advantage is now only two and a half percentage points. During the 1980's, Toronto's very strong job market was a powerful magnet for job-seekers, resulting in high levels of in-migration and rapid population growth. Housing demand was very strong, to accommodate the expanding population. Because of the weak economy, net migration is now only about one-half of the level seen during the late 1980's. Between 1986 to 1991, an average of 33,400 households were formed per year. Household formation has slowed, to an estimate of 18,000 in 1994. It is beginning to recover, to 20,000 in both 1995 and 22,000 in 1996. The slowdown was due to slower population growth and higher unemployment. Housing costs have also been a factor.



Sources: Statistics Canada and CMHC forecast

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[1] Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association.

Interest rates

Employment is the key factor that determines long-term demand for housing, but in the short-term mortgage rates are most important. They influence consumers' choices between owning versus renting.

Easing inflation caused by weak economic activity favour additional declines in mortgage rates until year end. The one-year rate is forecast to fall to 7.00-7.50% while the five-year rate is expected to decline to around 8.00-8.25%. As the Canadian and US economies strengthen in 1996, mortgage rates are expected to stabilize then trend upwards.

Consumers in control

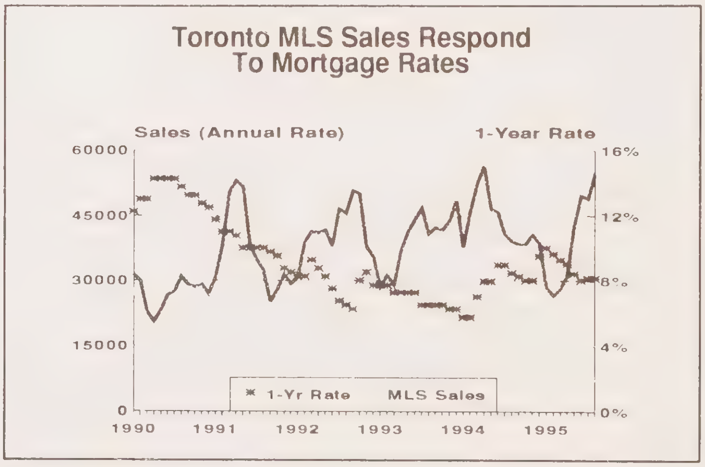
The mortgage market is extremely competitive. Consumers have leverage to negotiate the terms of their mortgages, and even their mortgage rates. For example, in the last week of August, borrowers in Toronto who chose 5 year terms were negotiating mortgages at an average rate of 8.40%; the rate officially quoted by lenders was 8.95%. By using their negotiating power, borrowers were saving an average of $54 per month, based on a $150,000 mortgage.

This, and other insights into Toronto's mortgage and housing markets, is available in a new report called "Who's Out There?" from CMHC's Toronto Branch. The data are taken from our extensive database on NHA mortgages. The report provides a portrait of borrowers, and the decisions they make in the housing and mortgage markets.

The housing market is evolving

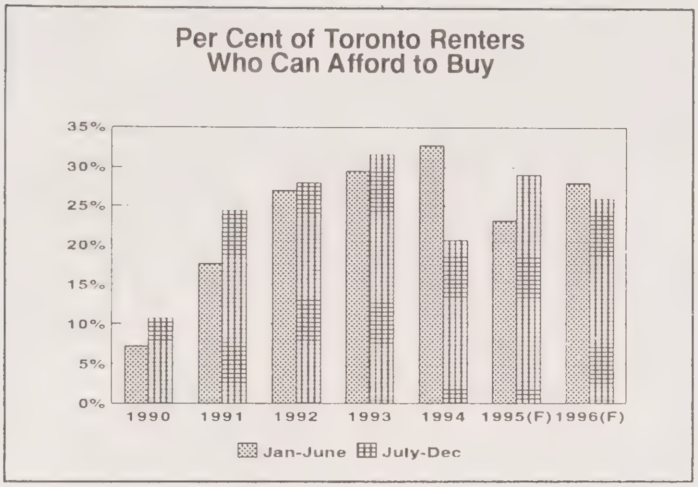
The factors that drive Toronto's housing market change over the years. It appears that the market is about to start a new evolution.

During the second half of the 1980's the key factor in the housing market was very rapid job creation, which stimulated movement into the area, a growing population, and strong household formation. Housing affordability was poor and a deterrent to homebuying, but the sheer weight of population growth caused record levels of home sales. In contrast, in the first half of the 1990's, a weak economy resulted in slow population growth. Meanwhile, the cost of buying a home fell, due to reductions in house prices and falling interest rates. The improvement in affordability allowed thousands of renters to shift to homeownership. As the following graph shows, there were three waves of rising home sales through MLS[1] during the first half of the decade. Each of the waves was caused by falling mortgage rates and the associated improvement in affordability. (The sales figures have been seasonally-adjusted to show the underlying trends.)



Sources: Toronto Real Estate Board and CMHC

In the summer of 1995, yet another wave has begun. This one has also been stimulated by reductions in mortgage rates. Also, the market was very weak during the spring, which is normally the strongest period in the real estate market: pent-up demand was unleashed during the summer. However, because mortgage rates are not expected to fall as low as they did in late 1993 and early 1994, affordability will not be as much of a factor in this cycle. Thus, this wave of homebuying will not be as strong or as long-lasting as the previous one. In fact, it is very likely that this cycle has peaked, or is close to its peak. The sales trend may start to slow during the next few months.



Source: CMHC

With interest rates expected to be stable or increase slightly during 1996, the real estate market would tend to weaken. To sustain strength, there will need to be stimulus from another source. Modest growth of jobs and continuing population growth will provide support to the market as 1996 progresses. In consequence, 1996 may be one of the most stable years ever seen in the Toronto real estate market, with few strong swings either upwards or downwards, and in very marked contrast to the wild swings seen in the first six years of the decade.

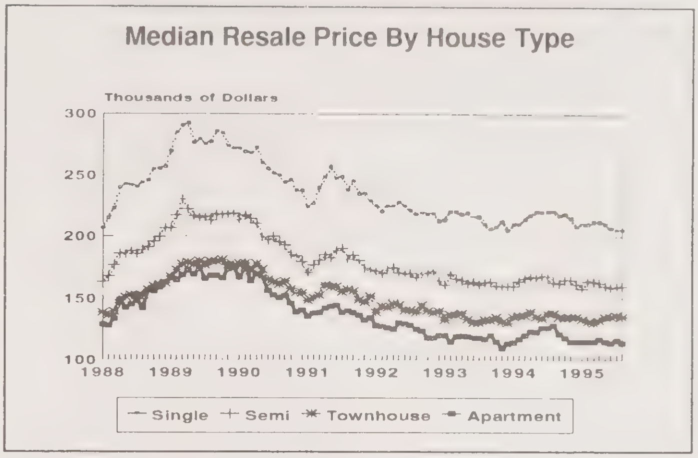
We also need to keep in mind the "seasonality" of the market - very strong buying as winter ends (35-40% above average in March), a slowdown in July and August (10% below average), modest improvement in the fall, followed by very weak sales in December (25-30% below average). 1996 will see a normal seasonal pattern. But, if we seasonally-adjust the 1996 figures, we will very likely see a pattern of sales consistently in the range of 40,000 to 45,000. By contrast, 1995 sales have varied wildly, starting the year at a pace below 30,000, and peaking at a rate of 55,000 during the late summer. By year end, the rate will likely be around 40,000.

For all of 1995, we expect 40,000 MLS sales. For 1996, CMHC forecasts 42,000 sales.

Prices weaker this year

House prices usually follow an annual cycle that is similar to the pattern of sales. As sales increase during the spring, prices rise marginally. As the market settles down during the summer, some of the price gains are lost. Further price drops occur during the slow months of December and January.

Of course, this pattern does not always hold. The following graph of median house prices shows that price gains were quite large in the spring of 1994, as demand was very strong but listings were in short supply. The average MLS price increased by $17,000 in just 5 months, to a peak of $215,000. Later in the year, sales fell more sharply than usual. Sellers were forced to reduce prices and all of the early price gains were given back.



Source: Toronto Real Estate Board

In 1995, price gains during the spring were weaker than normal - almost non-existent - as sales were very slow. In the late spring and summer, prices settled by more than normal, because there was an overhang of listings in the market and vendors were very motivated to sell. The average price also fell because there was a change in what was selling. First-time buyers became a larger part of the market, and there were more sales of modestly-priced homes.

With this weakness in prices at mid-year, the average price for all of 1995 will fall, to $204,000 versus $208,921 in 1994.

CMHC's analysis suggests that the best predictor of price movements in the housing market is the sales-to-listings ratio. A ratio above 30% indicates a "sellers' market", in which prices are likely to rise. A "buyers' market" occurs when the ratio is below 20%, and prices are likely to fall. A ratio between 20-30% indicates a "balanced market", when prices tend to be stable. (Readers should note that our measure of listings is taken from the Toronto Real Estate Board's "Market Watch" report, and is the category "listed", from pages 3A and 3B.)

For 1996, with a stable level of demand, we expect to see a balanced market for most of the year, with the average price unchanged at $204,000. There will be month-to-month variations, with prices slightly higher in the spring and slightly lower at other times.

First-timers lead the market

So far during the 1990's, Toronto's housing market has been dominated by first time-buyers. In the last five years, 60% of all homebuyers in Toronto have been first-timers. A normal rate would be 40%. First-timers were locked out of the market during the boom (1985-89), by a combination of escalating house prices and rising interest rates. Since the peak, house prices have fallen by 25-30% and interest rates have tumbled. Today, an income of $40,000 to $50,000 is required to buy a starter home in Toronto. This is much better than in the late 1980's, when the required income was $75,000 to $80,000. This change has made homeownership accessible for thousands of renters, including many who are at fairly late stages in their working lives. Thus, in our mortgage insurance business, CMHC is seeing considerable numbers of first-time buyers who are 40 or more years old.

Today, there is still a sizeable pool of renters of all ages who could potentially become homeowners. Many are staying in rentals by choice, but there are many renters who are not aware that they can now afford to buy. Surveys show that renters often

over-estimate the cost of a mortgage, or the income required to carry it, and often by considerable amounts.

Industry faces a challenge to educate renters on the possibility of homeownership.

> For many first-time buyers, an "accessory suite" can make homebuying feasible. With a falling vacancy rate in Toronto's rental market, there is a need for more basement apartments, and owners are finding it easier to attract good tenants.

Due to improved affordability, great opportunities also exist for the move-up buyer. But, unlike the first-time buyer market, the move-up market in Toronto has been weak. Potential move-up buyers are hesitant to take on the larger mortgages that would be associated with moving-up, because of uncertainty about jobs and because they sense that there is no urgency to buy. However, as the economy strengthens and consumer confidence improves in the coming years, move-up buying will begin a gradual recovery.

Changes in affordability also affect the kinds of homes that are bought. At the beginning of the year, when interest rates were increasing and affordability was reduced, single-detached homes made up 53% of sales, as some buyers have shifted their sights to lower-priced homes. More recently with improved affordability, 59% of sales have been singles. Conversely, condominiums (townhomes and apartments) do best when affordability is weak. They took 30% of the market at the beginning of the year. With lower interest rates their market share has fallen to below 25%.

The new homes alternative

New homes are taking an increased share of housing demand. In part this is due to shortages in the resale market. Increasingly, builders are offering products that are not available in the existing market, and are expanding the range of modest products that are suitable to first-time buyers. They are also offering more flexibility, including negotiation on price, mortgage buy-downs, and the ability to customize homes before they are built. Builders' offerings include small single-detached homes priced from $160,000 and up, and lower cost attached housing options (semi-detached homes, typically from $140,000, and town-homes priced from $130,000).

Forecast Summary Toronto Market

	1994	1995*	1996*
Existing House Market			
MLS[1] Sales	44,237	40,000	42,000
Average MLS Price	$208,921	$204,000	$204,000
MLS Average Monthly Listings[2]	13,591	14,900	14,700
Renter Households That Can Afford to Buy (July-December)[3]	20.7%	29.0%	26.0%
Forecasting Assumptions			
Employment (Year end)	2,067,000	2,115,000	2,150,000
Household Formation	18,000	20,000	22,000
Net Migration	37,000	37,000	37,000

Sources: Toronto Real Estate Board, Statistics Canada and CMHC
* Forecast by CMHC
[1] Multiple Listing Service is a registered certification mark owned by the Canadian Real Estate Association.
[2] For consistency with sales data, listings are for "single-family residential" from page 3B of the Toronto Real Estate Boards's "Market Watch" report.
[3] Canadian Housing Markets; assumptions: Average starter home price, 10% down-payment, 32% GDS, 3 year mortgage rate.

CMHC's annual housing conference

In Toronto's complex and changing housing market, there is just one simple equation - knowledge breeds success. CMHC's expert analysts are offering to share their knowledge with you, at the Housing Outlook Conference in Toronto on Wednesday, November 29th.

Topics to be covered include the economic and housing market outlooks for Canada, Ontario, and Toronto; how demographic change is affecting long-term housing demand; land supply in the Greater Toronto Area; Toronto's changing rental market; financing preferences of homebuyers; and the profile of first-time homebuyers.

The fee for this content-packed conference is $175 plus GST. Book before October 15 and the fee is just $150.00 plus GST. Fees include lunch and all conference materials.

Further information is available at (416) 869-1156 or (416) 869-0141.

For further information on anything in this report, please call Willard Dunning, Senior Market Analyst, CMHC Toronto Branch at (416) 789-8709.

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TORONTO REAL ESTATE FORECAST

Spring 1995

Synopsis

- The Toronto real estate market has slowed considerably, as mortgage rates have increased sharply from a year ago.
- The market is weak. At present, buyers have the advantage in negotiations.
- Sales expand each spring and house prices normally rise in response. Gains this spring will be minimal.
- Two key factors promise improvement for the second half of the year - more jobs are being created and there is a prospect of lower mortgage rates.
- For all of 1995, sales of existing homes will fall by 14% from 1994, to 38,000. The average price will be 2% lower, at $204,000.

Finally - economic recovery!

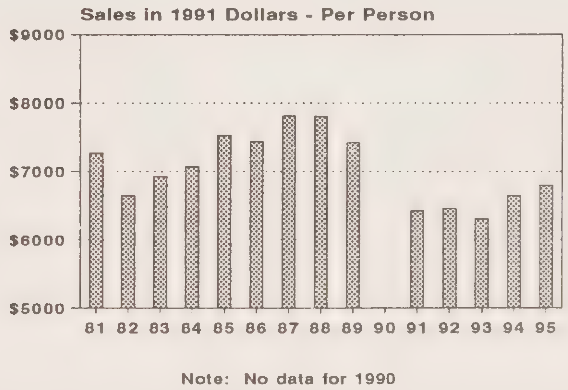
After 5 years of weakness, Toronto's economy started to create jobs in the second half of 1994. Statistics Canada reports that the Toronto Census Metropolitan Area lost 176,000 jobs during the recession, or 8.1% of all jobs. (Readers might be aware that previous estimates showed more than 200,000 jobs - 10% of the total - were lost during the recession. This estimate was revised on February 1st.) During the past 6 months, 57,000 jobs have been created in Toronto. While a recovery is clearly underway, the level of employment in Toronto is still almost 100,000 below the pre-recession level.

For all of Canada, the recovery arrived sooner and has been much stronger. In the rest of Canada, excluding Toronto, 290,000 jobs were lost during the recession. All of those jobs have been recovered and 340,000 more have been added.

The national recovery has been driven mainly by surging exports. It has benefited those areas of the country where the local economies are based on natural resources or manufacturing. This includes the westernmost provinces and southwestern Ontario. The Toronto economy, on the other hand, depends more on service industries. Few jobs are being created in services.

Toronto's recent recovery has resulted from three events. Interest rates have been lower than they were during the 1980's - especially at the beginning of 1994. This means that consumers' debt service costs have fallen. After paying their debts, consumers now have more money available. They are increasing their spending, creating jobs in the stores. Lower interest rates also resulted in strong new home sales during 1994, creating work in construction. Finally, investment in Toronto's manufacturing sector has picked up just recently, generating more jobs.

Retail Trade Per Capita
Recovery Starts in '94



Source: Statistics Canada and CMHC forecasts

Job growth forecast

All indicators show that the Toronto economy remains weaker than it was before the recession. But, it is now reasonable to expect 50,000 to 60,000 new jobs in 1995, a growth rate of 2.5-3%. This will be a bit weaker than the national rate of growth, because service industries will continue to lag behind goods-producing industries.

It is enlightening to compare the Toronto and Canadian economies by looking at the percentages of adults who have jobs (the employment:population ratio). During the 1980's, Toronto's ratio was normally about eight percentage points above the rate for all of Canada. The gap has been steadily closing, and Toronto's advantage is now only two percentage points. During the 1980's, Toronto's very strong job market made it a powerful magnet for job-seekers, resulting in high levels of in-migration and rapid population growth. Housing demand was very strong,

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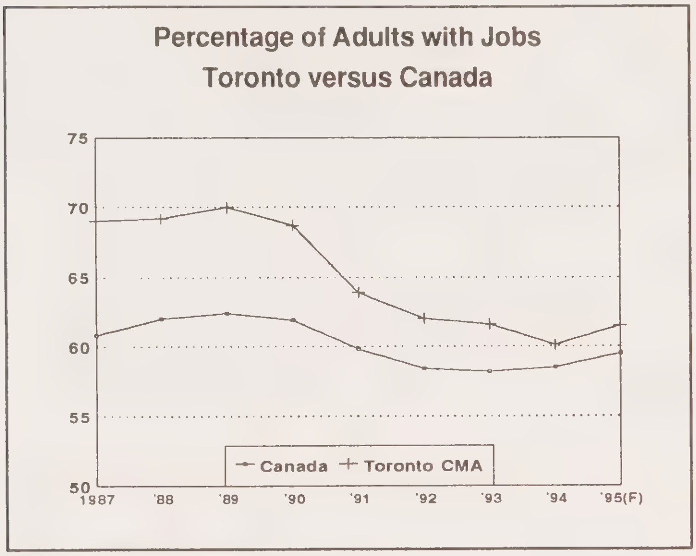
to accommodate the expanding population. Because of the weak economy, net migration is now only about one-half of the level seen during the late 1980's. Between 1986 to 1991, an average of 33,400 households were formed per year. Household formation has slowed, to estimates of 18,000 in 1994 and 20,000 in 1995. The reduction has been due to slower population growth and higher unemployment. Housing costs have also discouraged household formation.



Source: Statistics Canada and CMHC forecasts

Interest rates

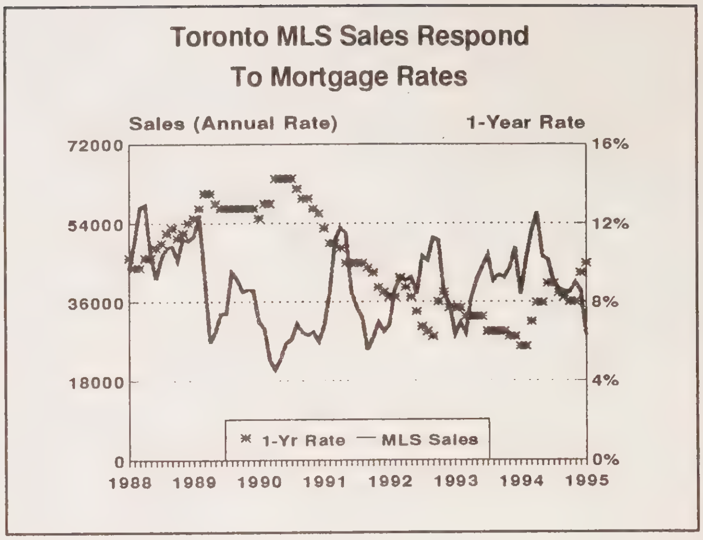
The key factor in the mortgage rate outlook is the strong momentum of the U.S. economy. Higher U.S. rates are needed to stem inflationary pressures and Canadian rates are following the lead from down south. U.S. economic growth is expected to slow during the second half of 1995, and inflationary pressures will ease. There will be scope for Canadian mortgage rates to fall later in 1995. The one-year rate is expected to decline to around 8.50-9.00% by year end, while the five-year rate is forecast to fall to 9.25-9.75%.

The housing market is evolving

The factors that drive Toronto's housing market change over the years. It appears that the market is about to start a new evolution.

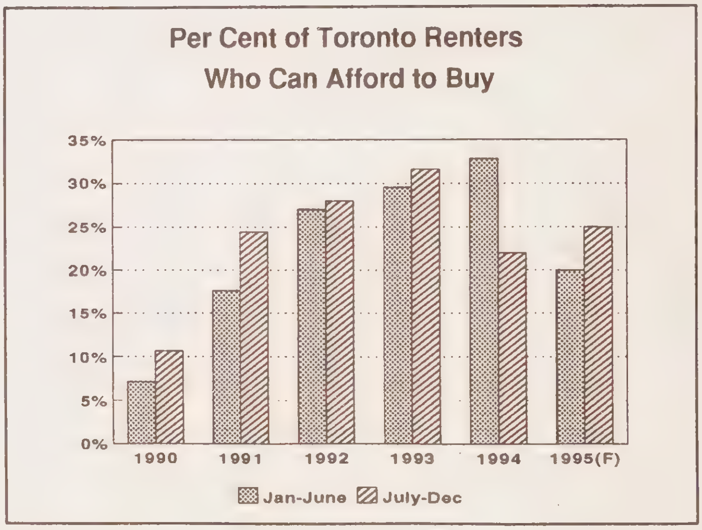
During the second half of the 1980's the key factor in the housing market was very rapid job creation, which stimulated movement into the area, a growing population, and strong household formation. Housing affordability was poor and a deterrent to homebuying, but the sheer weight of population growth caused record levels of home sales. In contrast, in the first half of the 1990's, a weak economy resulted in slow population growth. Meanwhile, the cost of buying a home fell, due to reductions in house prices and falling interest rates. The improvement in affordability allowed thousands of renters to shift to homeownership. As the following graph shows, there were three waves of rising sales of homes through MLS[1] during the first half of the decade. Each of the waves was caused by falling mortgage rates and the associated improvement in affordability. (The sales figures have been seasonally-adjusted to show the underlying trends.)

[1] Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association.



Source: Toronto Real Estate Board and CMHC

Affordability reached its peak level in early 1994. At that time, mortgage rates were at two-decade lows (5.75% for one year mortgages, 7.25% for five year terms). CMHC estimates that 38% of prime-buying-age renters could afford to buy in January 1994. Currently, with rates at 9.62-9.75% for one year and 10.37% for five years, about 20% of renters can afford to buy. With rates expected to fall later this year, affordability will improve to around 25% in the second half of the year.



Source: CMHC

What drove the market in the first half of the decade was ongoing improvements in affordability: each improvement caused a burst of activity. Affordability will improve during the second half of 1995 and into 1996, but the changes will not be as dramatic as in the past few years. The market will receive only a mild stimulus from that source.

Conditions in the next few years will not be like the late 1980's, either. While there will be employment growth it will not be as robust as during the mid 1980's. Population growth will also be less rapid, because the weaker job market will limit in-migration.

In the next few years, the background for the Toronto housing market will be moderate rates of: job growth, population

growth, and housing affordability. This combination offers the promise of reduced volatility. We won't see the highs of the late 1980's boom, or the crash of the early 1990's. There will be normal seasonal variations - a repeating pattern of strength in spring, followed by weakness in late fall and early winter. We will have short-term cycles as interest rates change or the economy changes pace. But, the changes will be less dramatic than the wild swings that have marked the last ten years.

The market today

Low interest rates resulted in a very robust housing market during the first half of 1994. Expressed as a "seasonally adjusted annual rate", MLS sales averaged 47,400 units. As affordability was reduced in the second half, sales slowed to an annualized rate of 39,300. Combining a very strong first half with a weaker second half, total MLS sales were 44,237 in 1994.

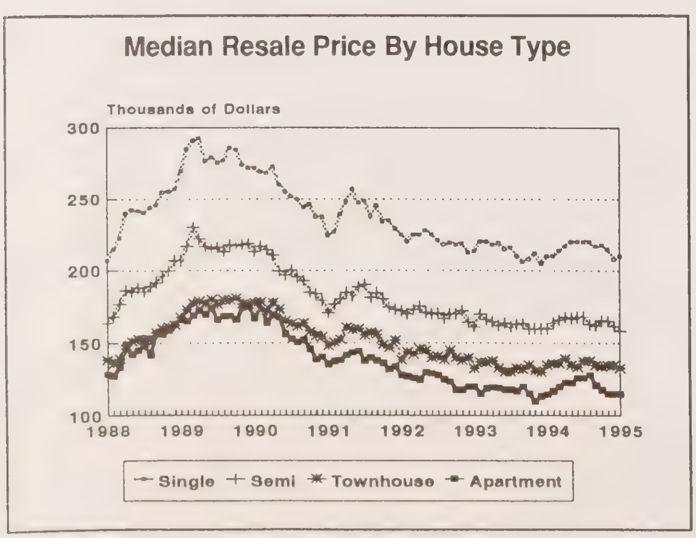
With more jumps in mortgage rates in December and January, affordability has been reduced. Sales have weakened further in the opening weeks of 1995. Monthly sales will increase during the spring, as they normally do, but the pick-up will be relatively weak. In seasonally-adjusted terms, the sales trend will very likely be at or below 35,000, weaker than in 1994. During the second half of the year, affordability will improve and job growth will continue. This combination will boost the sales rate to the 40,000 to 45,000 range. Combining a weak first half and a rebound in the second half, resales will total 38,000 in 1995.

Prices weaker this spring

House prices usually follow an annual cycle that is similar to the pattern of sales. As sales increase during the spring, prices rise marginally. As the market settles down during the summer, some of the price gains are lost. Further price drops occur during the slow months of December and January.

Of course, this pattern does not always hold. The following graph of median house prices shows that price gains were quite large in the spring of 1994. Demand was very strong but listings were in short supply. As sales boomed, the sales-to-active-listings ratio climbed to well above 30%: CMHC considers 30% the threshold for a "sellers' market" in Toronto. This imbalance in the market forced buyers to compete for available properties and prices were bid up. The average MLS price increased by $17,000 in just 5 months, to a peak of $215,000. Later in the year, sales fell more sharply than usual. The sales-to-active-listings ratio fell to about 20%. The balance in the market shifted, in favour of buyers. Sellers were forced to reduce prices and all of the early price gains were given back. By the beginning of 1995, prices had returned to the same level as at the start of 1994. However, because prices spiked during the spring, the average increased in 1994 to $208,921, from $206,490 in 1993.

In early 1995, the sales-to-active-listings ratio is well below 20%, a level that traditionally signals a risk of price reductions. Prices normally move up during the spring, but the low ratio suggests that we will not see the usual spring price increase this year. Or, if there is any increase, it will be muted. During the second half of the year, as interest rates fall and the trend of home sales gathers steam, prices will be steady or rise slightly. This will buck the usual trend of settling in the summer and fall. At the end of 1995 prices will be higher than was seen in late 1994. However, the average price for all of 1995 will be 2% lower than in 1994, at $204,000.



Source: Toronto Real Estate Board

First-timers lead the market

So far during the 1990's, Toronto's housing market has been dominated by first time-buyers. In the last five years, 60% of all homebuyers in Toronto have been first-timers. A normal rate would be 40%. First-timers were locked out of the market during the boom (1985-89), by a combination of escalating house prices and rising interest rates. Since the peak, house prices have fallen by 25-30% and interest rates have tumbled. At the beginning of 1994, homeownership was accessible at an income of $40,000. At today's mortgage rates, $50,000 is required. But, this is still much better than five years ago, when the required income was $75,000 to $80,000. This change has made homeownership accessible for thousands of renters, including many who are at fairly late stages in their working lives. Thus, in our mortgage insurance business, CMHC is seeing considerable numbers of first-time buyers who are 40 or more years old.

Today, there is still a sizeable pool of renters of all ages who could potentially become homeowners. Many are staying in rentals by choice, but there are many renters who are not aware that they can now afford to buy. Surveys show that renters often under-estimate the cost of a mortgage, or the income required to carry it, and often by considerable amounts.

Industry faces a challenge to educate renters on the possibility of homeownership.

Due to improved affordability, great opportunities also exist for the move-up buyer. But, unlike the first-time buyer market, the move-up market in Toronto has been weak. Potential move-up buyers are hesitant to take on the larger mortgages that would be associated with moving-up, because of uncertainty about jobs and because they sense that there is no urgency to buy. A survey done for CMHC in 1994 on "Consumer Housing Preferences in the 1990s" looked at buying intentions, among other things. In Toronto, 60% of people who expect to buy in the second half of the decade would be first timers, the same proportion as in the first half. However, as the economy strengthens and consumer confidence improves this year and next, move-up intentions will begin a gradual recovery. Move-up buyers will become more willing to act on opportunity.

Changes in affordability also affect the kinds of homes that are bought. When affordability was at its best in early 1994, 58% of sales were single-detached homes. Recently, singles have made up 53% of sales, as some buyers have shifted their sights to lower-priced homes. Condominium apartments have increased their market share from 15% in 1988-89 to 19%. They fill a growing niche demand from life-style buyers who are looking for options other than ground-oriented housing.

Condo market very active

In the apartment condominium market, sharp price declines since the peak have made high-rise living a very affordable housing option for young singles and empty nesters. At the same time, improved affordability is encouraging many condo owner-occupants to move to ground-oriented housing. Investor-owned condos represent a source of additional listings: CMHC estimates that there are 49,000 investor-owned condos in the Toronto area. These forces will result in continued strength in both sales and listings of condos during 1995.

The new homes alternative

During 1994, new homes took an increased share of housing demand. In part this was due to shortages in the resale market. Increasingly, though, builders are offering products that are not available in the existing market, and are expanding the range of modest products that are suitable to first-time buyers. Features include energy efficient appliances, higher ceilings, and two storey family rooms. Builders' offerings include small single-detached homes priced from $160,000 and up, and lower cost attached housing options (semi-detached homes, typically from $140,000, and town-homes priced from $120,000). Amenity-free, low-rise condominiums/stacked town-homes are also an attractive option, due to their modest prices ($110,000 and up), low monthly common charges, and central locations.

Forecast Summary Toronto Market

	1993	1994	1995*
Existing House Market			
MLS[1] Sales	38,900	44,237	38,000
Average MLS Price	$206,490	$208,921	$204,000
MLS Average Monthly Listings[2]	15,164	13,591	15,000
Renter Households That Can Afford to Buy (July-December)[3]	31.6%	22.0%	25.0%
Forecasting Assumptions			
Employment (Year end)	2,038,000	2,067,000	2,140,000
Household Formation	16,000	18,000	20,000
Net Migration	2,000	20,000	37,000

Sources: Toronto Real Estate Board, Statistics Canada and CMHC

* Forecast by CMHC

[1] Multiple Listing Service is a registered certification mark owned by the Canadian Real Estate Association.

[2] For consistency with sales data, listings are for "single-family residential" from page 3B of the Toronto Real Estate Boards's "Market Watch" report.

[3] Canadian Housing Markets; assumptions: Average starter home price, 10% down-payment, 32% GDS, 3 year mortgage rate.

Consumer preferences - get the inside edge

"Consumer Housing Preferences in the 1990s" is an in-depth study of Canada's owners and renters. It looks at topics such as most-liked and disliked house features, the likelihood of buying a new or resale home, preferred mortgage features, and more than 40 other topics.

Insightful analysis is presented for each province, with spotlights on Toronto, Montreal, and Vancouver. To provide a complete picture, the home buying market is sliced into four distinct segments: Baby Boomers, Pre-Boomers, Empty Nesters, and Generation X.

The report costs $149.95. Or, get the publication and an easy-to-use, Windows™ compatible 3.5" diskette for $199.95.

The package is available for inspection at CMHC's Toronto Branch, and comes with a 21-day money back guarantee. Call 1-800-304-8736 to order it, or call us at 416-789-8708 to arrange a preview.

For further information on anything in this report, please call Willard Dunning, Senior Market Analyst, CMHC Toronto Branch at (416) 789-8709.

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TORONTO REAL ESTATE FORECAST

Fall 1994

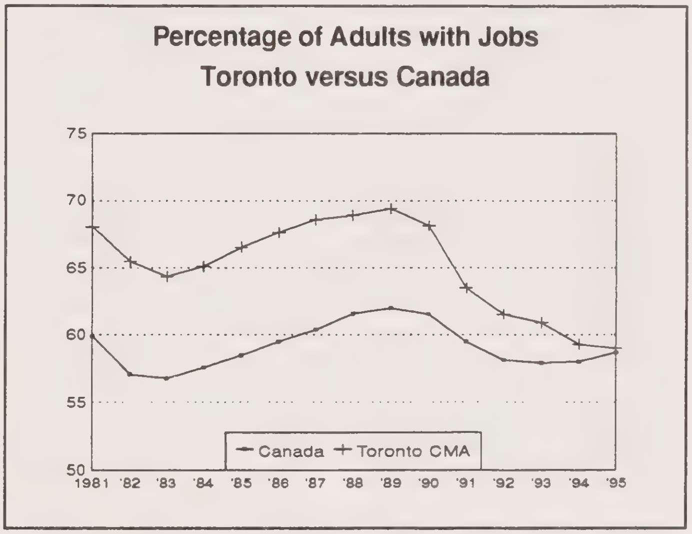
Synopsis

- Following a boisterous spring, the Toronto real estate market has slowed considerably, due to a spike in mortgage rates.
- The market is in transition from a "sellers' market" to a "buyers' market". Price gains made during the spring will be given back.
- Toronto is on the verge of economic recovery - finally - but job growth will have only a marginal impact on the housing market during the next year and a half.
- The key factor in the market is a clouded outlook for mortgage rates. Lower rates will bring the market back to balance by mid-1995.
- The spring 1994 house sales performance will not be matched during the next year and a half.

Lingering effects of recession

The recession of 1990 was over long ago, as far as Canada is concerned. The Toronto area, however, has been slow to join in the recovery. In the rest of Canada, excluding the Toronto Census Metropolitan Area (CMA), almost 300,000 jobs have been created during the past year. The national recovery is becoming broadly based, with activity expanding across a wide section of the economy. In Toronto, 200,000 jobs were lost during the recession - 10% of the total. There has not yet been any recovery of jobs. In the rest of Canada, by comparison, 3% of jobs were lost during the recession - all of those losses have been regained, and an additional 2% have been added.

It is enlightening to compare the Toronto and Canadian economies by looking at the percentages of adults who have jobs (the employment:population ratio). During the 1980's, Toronto's ratio was normally about eight percentage points above the rate for all of Canada. The gap has been steadily closing, and Toronto's advantage is now only one percentage point. During the 1980's, Toronto's very strong job market made it a powerful magnet for job-seekers, resulting in high levels of in-migration, rapid population growth, and accelerated household formation. Because of the weak economy, net migration is now only about one-half of the level seen during the late 1980's. Between 1986 to 1991, an average of 33,400 households were formed per year. Household formation has slowed, to a forecast of 18,000 in 1994 and 20,000 in 1995. The slowdown has been due to reduced population growth and increased unemployment.



Source: Statistics Canada and CMHC forecasts

The turning point

The first convincing signs of an economic turning point are now being seen in Toronto. Consumer spending, on a per person basis, adjusted for inflation, fell by 19% during the recession. This key indicator has picked up recently, increasing by 4% in just the first half of 1994. For all of 1994, it is forecast to increase by 5%, followed by at least 2% next year.

In the construction industry, data on building permits indicate that activity in the Toronto CMA fell by 60% during the recession. The trend stabilized at the beginning of this year and is starting to pick up, led by housing and construction of industrial facilities.

A third positive factor is increasing strength in the manufacturing sector. For each of these three major industries - retail trade, construction, and manufacturing - we can reasonably expect to see modest rates of job creation during the 1994-95 forecast period. On the other hand, on-going restructuring, especially in very large organizations in business and government, will

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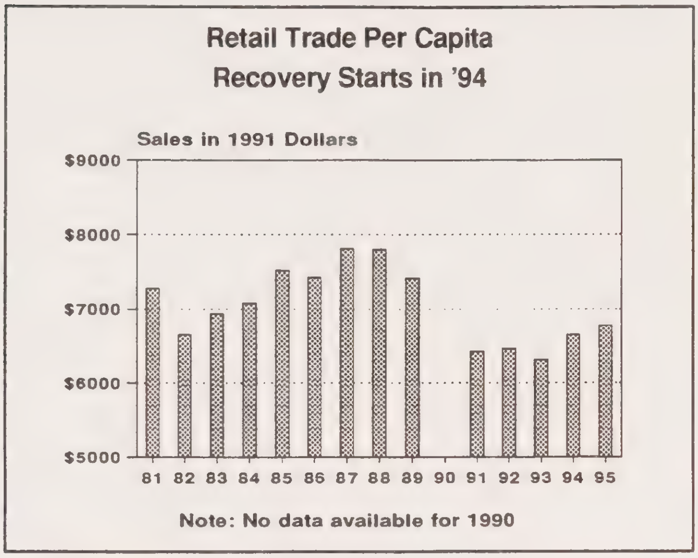
hold back employment. Overall, the total number of jobs will increase from 1.75 million in July 1994 to 1.78 million in December 1995. This increase of 30,000 is a relatively weak growth rate. It will provide only limited stimulus to the housing market.



Source: Statistics Canada and CMHC forecasts

Interest rates

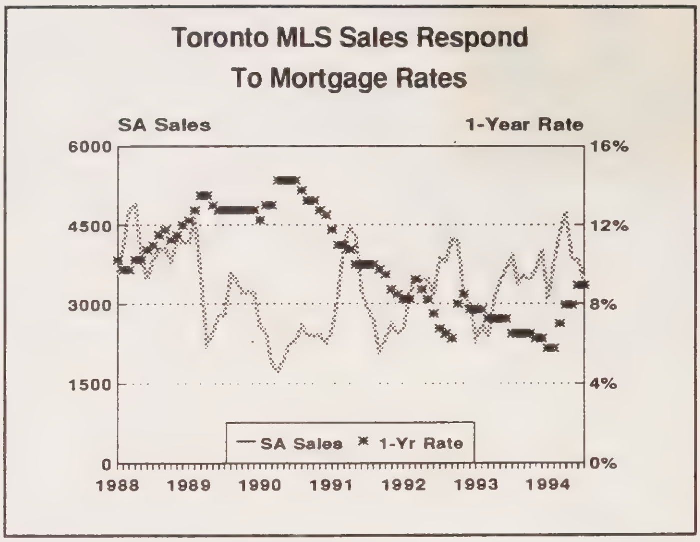
In recent weeks, Canadian interest rates have declined moderately. However, concerns about inflation in the U.S. and Europe are limiting the potential for larger reductions. Consequently, Canadian mortgage rates are likely to remain around current levels or rise slightly until year end. During 1995 the U.S. economy will slow and inflationary pressures will ease. There will be scope for Canadian mortgage rates to fall next year. For the end of 1995, the one-year mortgage rate is forecast at 7.5%, with the five-year rate at 9%. There is some risk that inflation in the U.S. and Europe could be more persistent than expected, which would result in higher rates.

Affordability is the key

During the 1990's, there have been three periods of significant reductions in mortgage interest rates. Each of these produced an improvement in affordability. Thus, the following graph shows that there have been three strong waves of home sales through MLS[1], despite the weakness in the local economy. Each of these waves was caused by falling interest rates. The first two waves ended abruptly when the rate reductions ceased. The third wave actually gathered strength - for a time - as rates increased in early 1994.

Early in 1994 interest rates reached thirty year lows, and housing affordability was at the best levels since the early 1970's. But, interest rates increased sharply last spring. For example, the five-year mortgage rate increased from 7.25% in January/February to 10.75% in June/July. Sensing that the interest rate cycle had reached bottom, consumers accelerated their home-buying decisions during February to June, in order to take advantage of pre-approved mortgages. This surge pushed home sales to well above the level that is justified by economic fundamentals. In effect, the market "borrowed" activity from the second half of the year. And, the sales trend is now showing a marked deceleration.

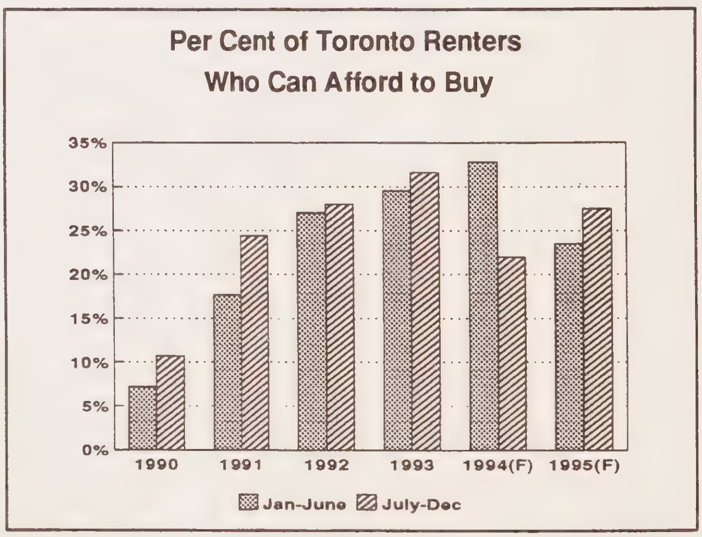
[1] Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association.



Source: Toronto Real Estate Board and CMHC

In the near-term, any changes in interest rates - increases or decreases - will have little effect on the fall 1994 housing market. Following the strength in the spring, the pool of potential buyers has been temporarily depleted and the fall market is destined to be comparatively slow. Even if interest rates fall more than anticipated this fall, there would be a delayed response in the housing market. In the longer term, however, each 1 percentage point drop in mortgage rates causes home sales to rise by 3,000 to 5,000 units per year. As job creation will be only modest in 1995, interest rates will once again be the key factor in the housing market next year.

Although interest rates have increased recently, affordability is still more favourable than it was during the late 1980's. The percentage of Toronto renters who can afford to buy (22%) is currently three times the level seen during 1989 and 1990 (7%). However, affordability has dropped from the record high rate of 32.8% recorded in the first half of this year. As interest rates ease during 1995, the level of affordability will recover some of the ground lost in early 1994, to 27.5% in the second half of the year. Buying activity will follow.



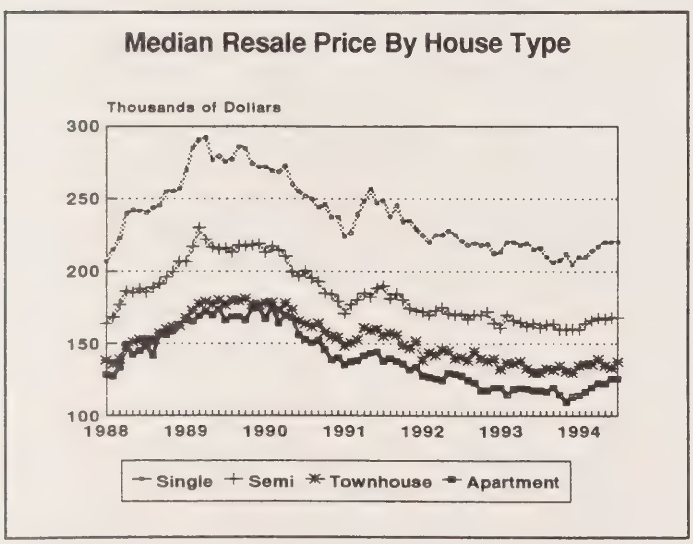
Source: CMHC

During 1994, home-buyers have managed to mitigate the impact of rising mortgage rates by shortening their mortgage terms. At present, few buyers are taking five-year terms: most buyers are gambling that interest rates will not increase further during

the coming year. The one-year mortgage rate increased by 3.2 percentage points between January and July and the five-year rate increased by 3.5 percentage points. Data from CMHC's mortgage insurance program show that the average rates actually paid by borrowers increased by a lesser amount - 2.3 percentage points - as consumers opted for shorter terms. During the coming months, lenders will likely see a continuation of that trend to shortened terms.

House prices follow demand - Up in the spring...

During the spring, while sales boomed, the supply of listings was limited. Listings offered by move-up buyers are normally the greatest source of supply on the resale market. However, move-up demand has been weak, because of continued uncertainty about the economy. Therefore, few new listings are being offered from this source and supply now is largely from people moving away from Toronto, distressed sellers, and repossessions. As a result, the number of listings has fallen by one-third during the last two years. The combination of elevated demand and restricted supply caused shortages in some locations and in some price ranges. As sales boomed, the sales-to-active-listings ratio climbed to well above 30% during the spring: CMHC considers 30% the threshold for a "sellers' market" in Toronto. This imbalance in the market resulted in a spike in house prices and the average MLS price increased by $17,000 in just 5 months, to a peak of $215,000. At the end of the summer, it appears that prices are now stable, as shown by the median prices in the following graphic.



Source: TREB

...And down in the fall

During the coming months, the sales trend will continue its slowdown, leading to an increase in the number of unsold listings. The sales-to-listings ratio is falling and could soon fall below 20%. In the past, when the ratio was below 20% there have often been price reductions in the Toronto real estate market. The market is in a rapid transition to an over-supplied situation. The price gains made during the spring will be lost during the fall and winter. The average price will likely be around $200,000 by early next year, the same as at the beginning of this year, down from the $215,000 reached in the spring.

Combining a frenetic first half and a slow second half, total MLS sales this year will reach 44,000, the fourth highest level ever. The up-and-down pattern of prices will produce an annual average of $208,000, just ahead of 1993's $206,490.

1995 outlook

At the beginning of 1995, the Toronto real estate market will be in a "buyers' market" situation. With the sales-to-listings ratio at or below 20%, selling periods will be prolonged and buyers will have the advantage in negotiations. As the local economy proceeds to make a gradual recovery and interest rates fall during the year, demand will gather strength. The market will return to balance by mid-year, as mortgage rate reductions improve affordability and increase the pool of buyers. As signs of economic recovery become more convincing, we should also see increased move-up buying. Sales for all of 1995 are forecast at 40,000, a 9% reduction from 1994. The MLS price is forecast to average $206,000 for the year. This implies that the monthly prices will increase sharply from the initial $200,000 level. This will be partly due to a 1-2% increase in the value of typical houses. It will also reflect a change in what is selling: with more move-up buyers, there will be more high priced homes selling.

First-timers lead the market

So far during the 1990's, Toronto's housing market has been dominated by first time-buyers. First-timers were largely locked-out of the market during the boom (1985-89), by a combination of escalating house prices and rising interest rates. Since the peak, house prices have fallen by 25-30% and interest rates have tumbled. At the beginning of 1994, homeownership was accessible at an income of $40,000. At today's mortgage rates, slightly more income is required - $45,000. In early 1993 there were 125,000 renter households in the Toronto CMA who were in the 25 to 44 age group and who had incomes of more than $45,000. In the past year and a half, this number has undoubtedly been thinned out, due to the strong rate of home-buying. There are likely about 100,000 renters in the prime home-buying age (25 to 44 years) who can afford to buy at present. Not all of these renters will become owners, due to life-style preferences or uncertainty, but at the current level of affordability, strong first-time buying activity can continue for some time.

Due to improved affordability, great opportunities also exist for the move-up buyer. But, unlike the first-time buyer market, the move-up market in Toronto has been weak. Potential move-up buyers are hesitant to take on the larger mortgages that would be associated with moving-up, because of uncertainty about jobs and because they sense that there is no urgency to buy. House values are not expected to increase for some time and interest rates are expected to remain affordable. We are now seeing signs of improving consumer confidence as consumer spending is expanding. Assuming that this leading indicator continues to move ahead, move-up buyers will become more willing to act on opportunity and a small recovery of move-up activity will gradually gather steam.

Another consequence of improved affordability has been a shift in market activity - more buyers are able to purchase single-detached homes, rather than lower-priced semi-detached, linked, and row homes. So far in 1994, 57% of resales have been single-detached units, up from 52% during 1988 and 1989. The combined share of semis, links, and rows has fallen to 25%, down from 34% at the peak. Condominium apartments have increased their market share from 15% in 1988-89 to 17%. They fill a growing niche demand from life-style buyers who are looking for options other than ground-oriented housing.

Condo market very active

In the apartment condominium market, sharp price declines since the peak have made high-rise living a very affordable housing option for young singles and empty nesters. At the same time, improved affordability is encouraging many condo owner-occupants to move to ground-oriented housing. Investor-owned condos represent a source of additional listings: CMHC estimates that during 1993 over 2,000 rented condominiums were sold to owner-occupiers. This left a total of 45,000 investor-owned condos. These forces will result in continued strength in both sales and listings of condos during 1994 and 1995. Condo prices are expected to be stable.

The new homes alternative

With supplies tight in the resale market, especially for first-time homes, not all needs are being met in the resale market. New construction represents an alternative source of supply. Builders are expanding the range of modest products that are suitable to first-time buyers. This includes small single-detached homes priced from $160,000 and up, and lower cost attached housing options (semi-detached homes, typically from $140,000, and town-homes priced from $120,000). Amenity-free, low-rise condominiums/stacked town-homes are also an attractive option, due to their modest prices ($100,000 and up), low monthly common charges, and central locations.

Forecast Summary Toronto Market

	1993	1994*	1995*
Existing House Market			
MLS[1] Sales	38,990	44,000	40,000
Average MLS Price	$206,490	$208,000	$206,000
MLS Average Monthly Listings[2]	15,164	13,700	15,000
Renter Households That Can Afford to Buy (July-December)[3]	31.6%	22.0%	27.5%
Forecasting Assumptions			
Mortgage Rate 3 Year	8.10%	9.25%	9.40%
Employment (Year end)	1,772,000	1,760,000	1,780,000
Household Formation	16,000	18,000	20,000
Net Migration	20,000	24,000	30,000

Sources: Toronto Real Estate Board, Statistics Canada and CMHC

* Forecast by CMHC

1 Multiple Listing Service is a registered certification mark owned by the Canadian Real Estate Association.

2 For consistency with sales data, listings are for "single-family residential" from page 3B of the Toronto Real Estate Boards's "Market Watch" report.

3 Canadian Housing Markets; assumptions: Average starter home price, 10% down-payment, 32% GDS, 3 year mortgage rate.

CMHC's first annual housing conference

How many times have you wrestled with the complexity of Toronto's housing market, trying to see the big picture in a myriad of details? To anticipate changes and capitalize on opportunities, you need to know how the market is affected by factors like employment growth, changes in the economy, migration, and demand from first-time and move-up buyers. But, you don't always have the time to conduct your own detailed analysis. That's why CMHC is offering a one-day Housing Outlook Conference in Toronto, on Tuesday, November 22nd.

The panel of experts will cover topics such as consumers' housing preferences in the 1990's, the impact of demographic change on long-term housing demands, changing characteristics of the mortgage market, and the economic and housing market outlooks for Canada, Ontario, and Toronto.

The fee for this content-packed conference is $175 plus GST. Book early, by September 15th, and the fee is reduced to $125 plus GST. Fees include lunch and all conference materials.

For further information on anything in this report, please call Willard Dunning, Senior Market Analyst, CMHC Toronto Branch at (416) 789-8709.

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TORONTO
REAL ESTATE FORECAST

Spring 1994

Highlights

- Toronto economy continues to lag
- Excellent affordability drives housing market
- Move-up demand is very soft
- Supply of listings is the issue for 1994

Uncertainty prevails

In Toronto's housing market today the key factors are:

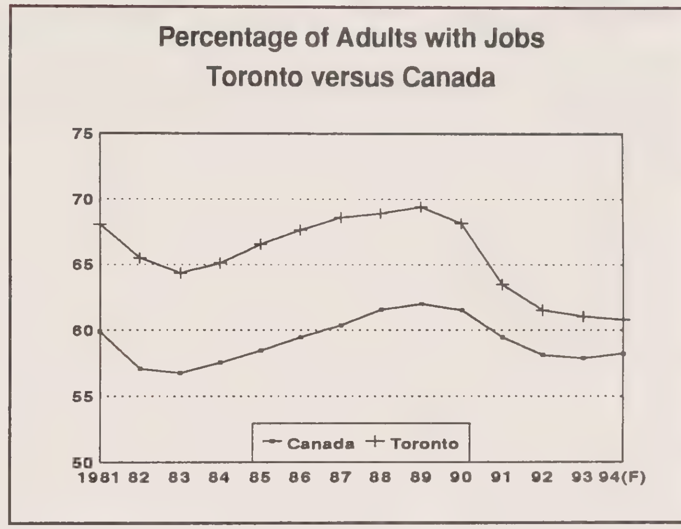
- The affordability of ownership housing has improved dramatically during the past four years and is now at the best level since the early 1970's.
- The Toronto economy is undergoing profound change. Uncertainty about the future, and especially about jobs, is a fact of life for many of us.
- Toronto's position in the national economy has weakened during the past four years.

A weak economy

The recession began in the spring of 1990. In a period of two and a half years the Toronto Census Metropolitan area (CMA) lost about one-tenth of its jobs. Initially the losses were in manufacturing, followed by construction and the trade sector. Those sectors have basically stabilized. More recently job reductions have been occurring in white collar jobs in the service industries, as large organizations are cutting their costs. Overall, a weak job recovery has occurred: at best, only about 20% of the losses have been regained.

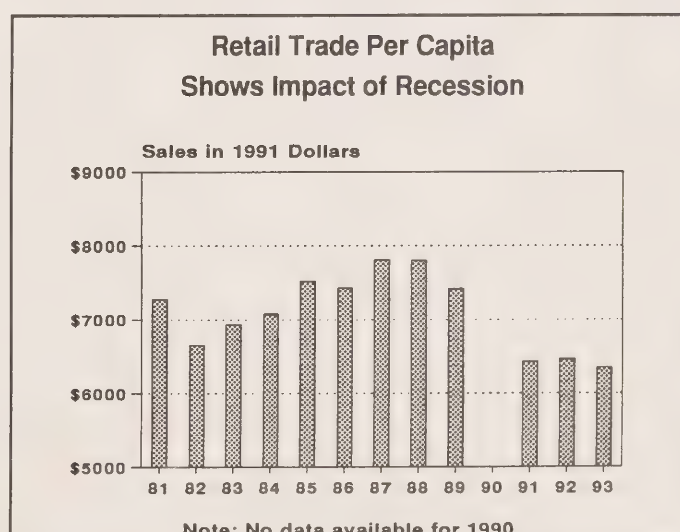
In comparison, in the rest of Canada (excluding Toronto), the recession was shorter and less severe. The decline in jobs lasted for two years (versus two and a half years in Toronto), and about 3% of jobs were lost. Since then, three-quarters of the job losses have been regained in the rest of Canada, although many of the new jobs are part-time (less than 30 hours per week).

As a means of comparing the Toronto and Canadian economies, it is useful to look at the percentages of adults who have jobs (the employment:population ratio). During the 1980's, Toronto's ratio was normally about eight percentage points above the rate for all of Canada. By 1993, that gap closed to three percentage points. Toronto is still above average in providing jobs, but its position in the national economy has clearly weakened.



Source: Statistics Canada and CMHC forecast

In Toronto, the extent of losses, the weak recovery, and the fact that jobs are still being lost in key sectors, are combining to produce an on-going sense of uncertainty and weak consumer confidence. This is shown by consumer spending. Based on data from Statistics Canada, we estimate that retail spending per person, adjusted for inflation, fell by 18% in the Toronto CMA dur-



Source: Statistics Canada and CMHC forecast

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ing the recession. It has been flat for three years, in fact, it may even have fallen slightly during 1993. Considering that the lower Canadian dollar has reduced cross-border shopping, per capita spending in Toronto would be expected to increase during 1992 and 1993, but it did not. Likewise, lower interest rates should have resulted in more consumer spending. This weakness in spending suggests that consumer confidence in Toronto has failed to increase, and may even have weakened further.

Realistically, modest job growth

For 1994, there are positives and negatives that make the timing and strength of a recovery uncertain in Toronto. The greatest negative is uncertainty about jobs and incomes, especially in very large organizations, in business and government. Another factor is the high level of debts that are hanging-over from the late 1980's.

On the positive side, the U.S. economy is expanding and the rest of Canada is recovering. This will result in increasing demands for Toronto's goods and services. More importantly, lower interest rates are allowing Toronto's consumers to tame their debts. 1989 was a record year for mortgage borrowing and interest rates were high: the five year mortgage rate averaged 12.1% in 1989. Many thousands of Toronto homeowners will be rolling over high interest rate mortgages in 1994 (and in 1995), and will find their interest rates falling by as much as 6 or 7 percentage points. This will cause growth in discretionary income (what's left after taxes, essentials of life, and debt service costs). Some of the savings will be devoted to debt reduction. But, to the extent that consumers increase their spending, and spend it locally, the Toronto economy will improve in 1994.

We expect that Toronto CMA employment will grow by about 1% to 1.5% in 1994, slightly less than the rate of population growth. While the unemployment rate will not improve during 1994, the job growth will increase consumers' abilities to spend, in stores and in the housing market. The jobs recovery will be mainly in the trade sector, personal services, and then manufacturing.

Because of the weak economy, net migration is now only about 60% of the level seen during the late 1980's. With unemployment high, especially among youths, household formation will improve only slightly, to 18,000 in 1994.

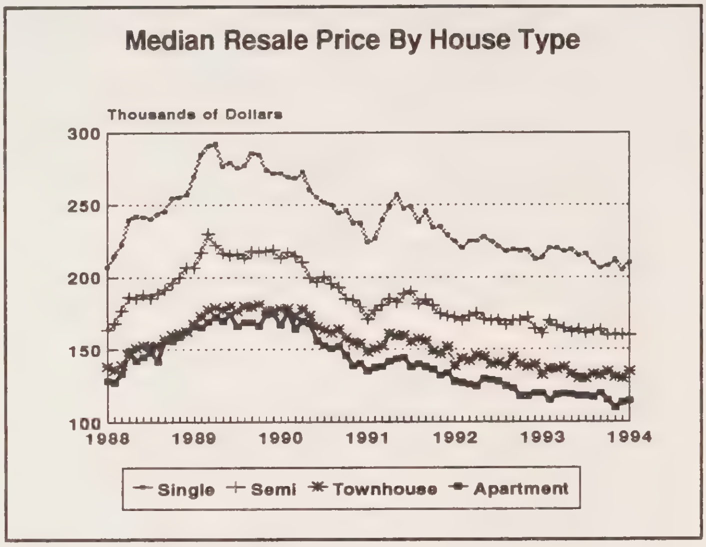
Interest rates

Improving economic conditions suggest that interest rates have now reached bottom. There is a possibility that mortgage rates could rise during the second half of 1994. However, any increase will be quite small. A key factor favouring low and stable mortgage rates is the fierece competition among lenders to attract mortgage loans. One-year rates are forecast to stand around 6.00% to 6.50% by year end. Five-year rates are expected to stand in the 7.50% to 8.00% range by the end of 1994.

Affordability drives the market

Despite the weakened economy, 1992 was the fifth best year ever for MLS[1] sales through the Toronto Real Estate Board. Activity slipped by 7% in 1993, but still reached the sixth best ever total. Normally, growth of employment and incomes is the key factor determining housing demand. These have been negative factors so far in the 1990's, but dramatic changes in affordability have generated the strength in sales.

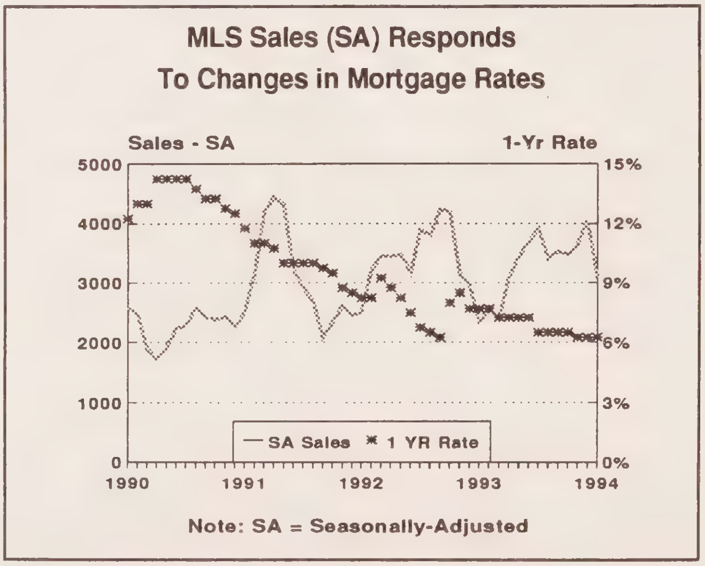
The average MLS price fell by 4% during 1993. Most of that decline was due to a slow erosion of values, but it was also partly due to a change in the composition of the market - more first-time buyers purchasing low-end homes and fewer buyers at the upper end. The greatest erosion of values occurred for expensive homes. By year end, prices for starter homes were stable.



Source: Toronto Real Estate Board

During the second half of the 1980's, high interest rates and escalating house prices locked many potential first-time buyers out of Toronto's housing market. Since then, with house values down by 25% to 30% from the peak and mortgage rates at a 30 year low, affordability has improved substantially. Affordability is now at the best level since the early 1970's. Since the end of the boom in 1989-90, the number of renters who can potentially afford to buy a starter home has increased four-fold. The consequence of this improvement has been very strong demand from first-time buyers, as renters are increasingly able to shift to homeownership.

During the 1990's, there have been three periods of significant reductions in mortgage rates. Each of these produced an improvement in affordability. Thus, the following graph shows that



Source: TREB/CMHC

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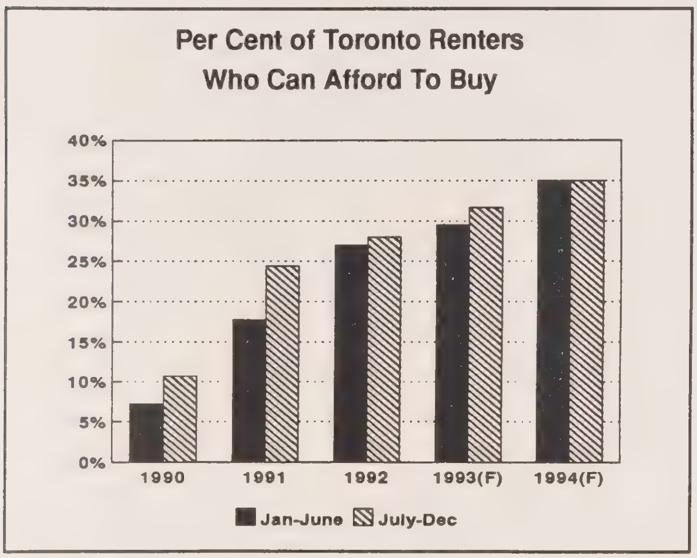
[1] Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association.

there have been three strong waves of home sales through MLS, despite the weakness in the local economy.

Homeownership has become accessible to households in the "modest" ranges of the income distribution. This is shown in CMHC's experience in the mortgage insurance business. Prior to 1992, few of CMHC's mortgage insurance applicants in Toronto had incomes below $50,000. That began to change during 1992. The percentage of applicants with incomes below $50,000 was 15% in the first half of 1992, 20% in the first half of 1993, and in the opening weeks of 1994 the proportion has reached 29%. Clearly, improved affordability has made homeownership much more accessible - the improvement is causing a tidal shift from renting to homeownership, and the market is now in the third wave of that shift. This is the strongest of the three waves and it has lasted the longest. The previous waves were ended abruptly by increased interest rates and reduced confidence. Provided that interest rates stay low, the current wave will remain strong, and will dissipate only gradually during the second half of this year, as the pool of potential buyers is depleted.



Source: CMHC

At the current level of affordability, strong first-time buying activity can continue for some time. Homeownership is now accessible at an income of $40,000. In 1991 there were 180,000 renter households in the Toronto CMA who were in the 20 to 44 age group and had incomes of more than $40,000; 110,000 of them had incomes above $50,000. Since 1991, those numbers have undoubtedly been thinned out, due to three years of home-buying and higher unemployment, but there are more than 100,000 renters in the prime home-buying age (20 to 44 years) who have incomes above $40,000. Not all of these renters will become owners, due to life-style preferences or uncertainty, but those who decide to buy are generating a steady level of demand.

Move-up buying limited

Due to improved affordability, great opportunities exist for the move-up buyer. But, unlike the first-time buyer market, the move-up market in Toronto has weakened. Potential move-up buyers are hesitant to take on the larger mortgages that would be associated with moving-up, because of uncertainty about jobs and because they sense that there is no urgency to buy. House values are not expected to increase for some time and interest rates are expected to remain at or close to their 30 year lows. Assuming that the economy shows the expected signs of gradual improvement during 1994, confidence will improve and a small recovery of move-up activity will happen in the second half of the year. CMHC will be watching consumer spending for signs that confidence is improving, as a leading indicator for the recovery of move-up demand.

Shortage of listings

Listings offered by move-up buyers are normally the greatest source of supply on the resale market. Because of the lack of move-up demand, few new listings are being offered. Supply now is largely from people moving away from Toronto, distressed sellers, and repossessions. The number of listings has fallen by one-quarter during the last two years. Because there is strong demand from first-time buyers, shortages are now occurring in some locations and some price ranges. In fact, those who might consider moving-up are finding that there are limited selections available, even in upper price ranges. CMHC's contacts in the real estate industry are reporting that listing periods are shortening and good properties are receiving multiple offers. This creates the possibility that a price spike - a short period of price escalation - could occur during the spring market, due to shortages. However, the spike will not be large and prices will settle down shortly afterwards. The imbalance will be greatest during the spring and the market will return to balance during the second half: the normal summertime slowdown in the market and the gradual wind-down of first-time buyer demand later this year will result in slower sales. Furthermore, new listings would be stimulated by any increase in prices, or any expansion in move-up demand.

For the year, CMHC forecasts that MLS sales will total 41,000, an increase of 5% over 1993. The average price is forecast to be $205,000. This is lower than the $206,490 average in 1993. However, it is higher than the $201,000 average recorded during the past 6 months. The price forecast for 1994 reflects the impact of a modest, short-lived spike this spring, plus a small increase in move-up buying late in the year.

Activity shifts to single-detached homes

Another consequence of improved affordability has been a shift in market activity - more buyers are able to purchase single-detached homes, rather than lower-priced semi-detached and row homes. During 1993, 57% of resales were single-detached units, up from 52% during 1988 and 1989. The combined share of semis and rows has fallen to less than 20% of activity, down from 26% at the peak. Condominium apartments have maintained their market share, as they have remained distinct from ground-oriented housing.

Condo market very active

In the apartment condominium market, sharp price declines since the peak have made high-rise living a very affordable housing option for young singles and empty nesters. At the same time, improved affordability is encouraging many condo owner-occupants to move to ground-oriented housing. Investor-owned condos represent a source of additional listings: CMHC estimates that during 1993 over 2,000 rented condominiums were sold to owner-occupiers. This left a total of 45,000 investor-owned condos. These forces will result in continued strength in both sales and listings of condos during 1994. Condo prices are expected to be stable during 1994.

The new homes alternative

Total MLS sales may be constrained during 1994 by a shortage of listings. With supplies tight in the resale market, especially for first-time homes, new construction represents an alternative source of supply. While resales are forecast to increase by 5%, new home sales have the potential to increase by 15% or more. Critical success factors for builders will continue to be location, pricing, and timeliness. For first-time buyers, the most-desired housing options include single-detached homes priced from $160,000 and up, and lower cost attached housing options (semi-detached homes, typically from $140,000, and town-homes priced from $120,000).

Forecast Summary Toronto Market

	1992	1993*	1994*
Existing House Market			
MLS[1] Sales	41,703	38,990	41,000
Average MLS Price	$214,971	$206,490	$205,000
MLS Average Monthly Listings[2]	17,135	15,164	14,300
Renter Households That Can Afford to Buy (July-December)[3]	28.0%	31.6%	35.0%
Forecasting Assumptions			
Mortgage Rate 3 Year	8.95%	8.10%	6.94%
Employment (Year end)	1,778,000	1,772,000	1,790,000
Household Formation	19,000	16,000	18,000
Net Migration	34,000	32,000	35,000

Sources: Toronto Real Estate Board, Statistics Canada and CMHC

* Forecast by CMHC

[1] Multiple Listing Service is a registered certification mark owned by the Canadian Real Estate Association.

[2] For consistency with sales data, listings are for "single-family residential" from page 3B of the Toronto Real Estate Boards's "Market Watch" report.

[3] Canadian Housing Markets; assumptions: Average starter home price, 10% down-payment, 32% GDS, 3 year mortgage rate.

CMHC's First Home Loan program - an added boost to the market

The improved affordability of homeownership is being enhanced by CMHC's First Home Loan Insurance Program (FHLI), which allows homebuyers to use a 5% downpayment. Since its introduction in February 1992, over 18,000 homebuyers have used the program in the Toronto CMA. The program has now been extended to February 1999. To help borrowers, mortgages of any term are now eligible - previously there was a requirement for a minimum 5-year term. However, if the term is less than three years, the three year rate is used in calculating eligibility.

The combination of improved affordability and CMHC's 5% down program is providing homebuyers with an excellent opportunity in 1994.

For further information, please call Willard Dunning, Senior Market Analyst, CMHC Toronto Branch at (416) 789-8709.

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TORONTO
REAL ESTATE FORECAST

Fall 1993

Highlights

- Improving prospects for the Toronto economy
- Excellent affordability drives housing market
- Sales to expand in 1994
- Price stability expected to continue

Toronto to follow Canadian recovery

Beginning in the second half of 1992 and through 1993, the Canadian and Ontario economies have shown signs of recovery. Although the recovery has been stop-and-go, there is an upward trend in economic indicators such as manufacturing activity, retail trade, and employment. In much of Canada, consumers and businesses have responded to the lowest interest rates in over two decades. In addition, a lower Canadian dollar, combined with economic recovery in the U.S., has created more export opportunities for Canadian manufacturers.

The Toronto economy, however, has lagged behind these improvements in Canada and the rest of Ontario, and to this point signs of economic recovery are scarce in the available statistics: retail trade, building permit values, and housing starts are all weak. More importantly, in terms of housing demand, employment has not yet shown any sustained recovery.

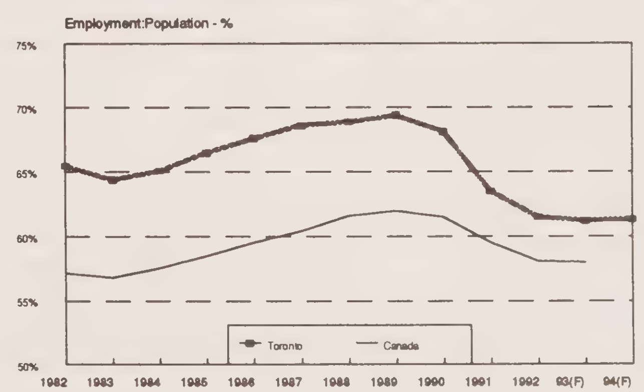
Our assessment is that employment in the Toronto CMA has been essentially stable since the second quarter of 1991, although it has been subject to minor up-and-down fluctuations. Meanwhile, Toronto's population has continued to grow, due to high levels of in-migration. This has caused an on-going decline in Toronto's employment-to-population ratio (the percentage of adults who have jobs). In consequence, the unemployment rate has reached double-digit territory and is currently around 11%.

Uncertain outlook for Toronto economy

The recession in Toronto was initially centred in manufacturing industries, which have lost more than 100,000 jobs since 1987. Employment in retail trade also suffered during the early stages of the downturn. More recently, manufacturing activity has expanded, but employment in that sector has not yet increased. Employment in construction, residential and non-residential, continues to fall. In addition, many large organizations across a wide range of industries, including financial services, transportation, utilities, and the government sector, are reducing staffing in their white collar management structures. It appears that these job losses are more-or-less offsetting gains made in business and personal services. These changes are likely to continue well into 1994. Given that the Toronto economy is particularly dependent on large organizations, much more-so than the rest of the country, the local economic recovery will continue to follow behind the rest of the country.

After a two year period in which total employment has been flat, a gradual recovery will begin in the near future. Low interest rates are allowing Toronto's consumers and businesses to recover from the effects of the recession and improve their finances. During 1994 this will increasingly translate into more spending. Furthermore, businesses in Toronto will take advantage of opportunities to expand their exports to the U.S. and other parts of Canada. Given the mix of positive and negative factors, it is difficult to predict the timing and magnitude of employment growth in Toronto. On balance we expect that between now and the end of 1994 employment will expand at the same rate as the population, at an annual rate of 1.5%. While this will not have much effect on the unemployment rate or the employment-to-population ratio, it will result in the creation of 40,000 to 50,000 jobs, bringing employment to 1.82 million by the end of 1994 compared to the 1.77 million recorded this July.

Percentage of Adults with Jobs
Toronto versus Canada



Source: Statistics Canada and CMHC forecast.

Demographics dictate slow household growth

Historically, Toronto's job market has been much stronger than the rest of the country. This is shown by the employment-to-population ratio, which was 8 percentage points higher than

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the rate for all of Canada during the 1980's. This made Toronto very attractive as a destination for job seekers. As a result of the recession, Toronto's employment to population ratio is now just 3 percentage points above the Canada rate. This reduction in employment opportunities is resulting in increased out-migration to other areas of Canada. On the other hand, immigration from other countries has been increasing. In total, the Toronto CMA is experiencing positive net migration, but a lower level than during the late 1980's. Net migration is forecast to be 32,000 this year and 35,000 in 1994, about 60% of the level achieved during the boom.

At this time, population growth in Toronto is being driven primarily by immigration. Because immigrants often arrive with limited financial resources, they tend to have low housing demands for some years after their arrival: they have lower household formation rates (they are likely to "double-up") and they are more likely to rent compared to those who are more established. Because population growth is mainly due to immigration, household formation and total housing demand in Toronto will remain weak for the next few years. During the second half of the decade, total housing demand will increase and it will shift towards homeownership, as the population of recent immigrants becomes better established financially.

Household formation slowed during 1990 to 1993, as a result of the weak job market. As employment begins its expansion, household formation will take the first steps to recovery during 1994, rising modestly to 18,000.

Interest rates continue to favour home buyers

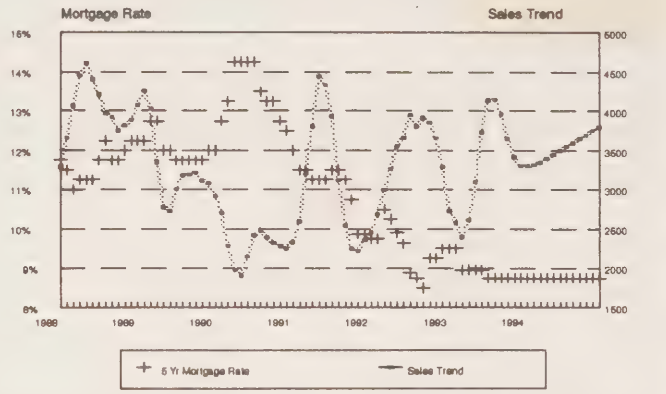
Mortgage rates for the Fall of 1993 and 1994 will only be slightly higher than the lows experienced last Fall (In September 1992, the five-year rate reached a 26 year low of 8.50 per cent). The five-year rate is expected to remain around its current level of 8.75 per cent, while the one-year rate is expected to average 7.00 per cent in 1994. Low inflation, a weak economy, and low U.S. interest rates have allowed the Bank of Canada to pursue an easy monetary policy and a lower interest rate. These low mortgage rates will continue to support the recovery of housing demand.

Affordability drives the market

So far in the 1990's, total housing demand has been weak, in the sense that weak household growth has caused housing starts to be slow. But, within the context of weak demand, there has been a great amount of movement in the Toronto housing market, primarily tenants moving into homeownership. In spite of the recession, residential MLS[1] sales through the Toronto Real Estate Board during 1992 reached the fifth highest annual total ever, at 41,703 units. The housing market has been subject to short-term cycles with sharp peaks and troughs, each lasting only a few months. Each of the upturns coincides with a period of declining mortgage interest rates. Clearly, it is changes in affordability that is generating homes sales. Each improvement of affordability releases a new wave of first-time buyers into the market.

In 1989, the average price of homes sold through MLS was $273,698. Since then the average has fallen by one-quarter, to about $210,000 for all of 1993. The combination of lower house prices and the lowest interest rates in two decades has resulted in a very strong improvement in housing affordability. Affordability is now equal to or better than for any other year during the past two decades. It is now better than it was during the previous housing market recovery, which occurred during 1983 to

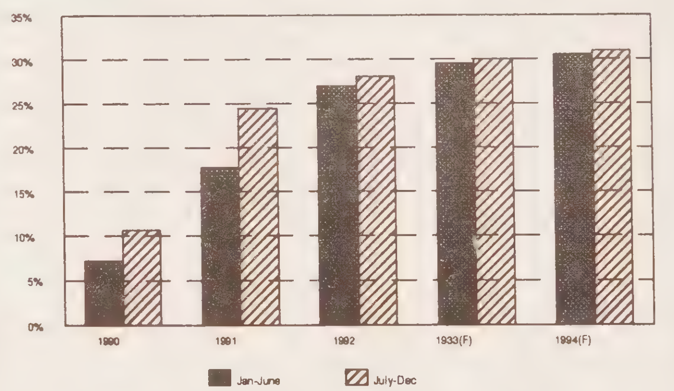
MLS Sales Trends Responds To Changes in Mortgages Rates



Source: TREB/CMHC Forecast.

1985. CMHC's affordability measure estimates the percentage of renters aged 25 to 44 who can afford to buy a home. In Toronto, the percentage has been rising steadily. In 1990 only 7% of those renters could afford to buy. By the second half of 1992 it reached 28%. It is forecast at 30% for the second half of this year and 31% by the end of 1994.

Per Cent of Toronto Renters Who Can Afford To Buy



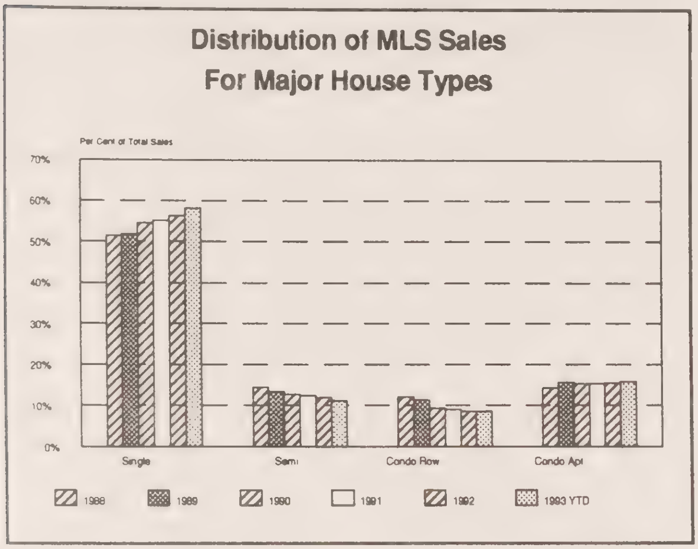
Source: CMHC

In 1990, an income of $82,000 was required to buy the average starter home in Toronto, and cover principal, interest, taxes, and energy costs. Now, with lower prices and interest rates, the income required to buy an average starter home (priced at $160,000) is approximately $55,000. To buy a townhouse costing between $120,000 to $140,000 requires an income of $40,000 to $47,000. This sharp improvement in affordability has enabled increasing numbers of first-time buyers to achieve homeownership, especially now that CMHC insures 95% mortgages.

[1] Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association.)

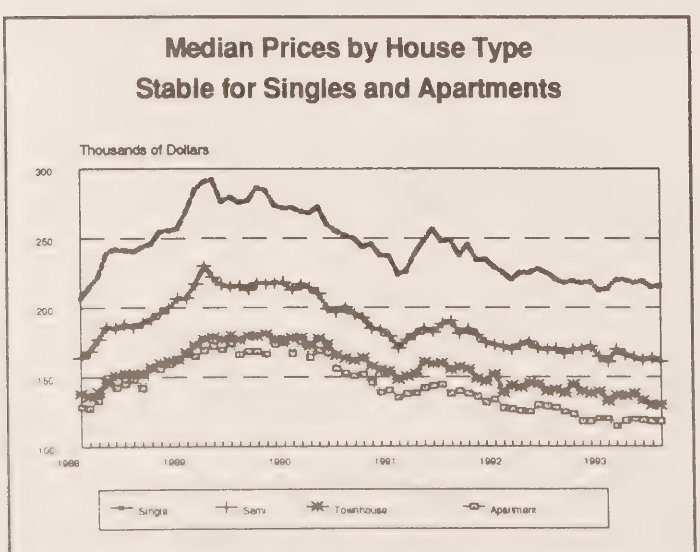
Activity shifts to single-detached homes

Another consequence of improved affordability has been a shift in market activity - more buyers are able to purchase single-detached homes, rather than lower-priced semi-detached and row homes. In the first 7 months of 1993, 58% of resales were single-detached units, up from 52% during 1988 and 1989. The combined share of semis and rows has fallen to less than 20% of activity, down from 26% at the peak. Condominium apartments have maintained their market share, as they have remained distinct from ground-oriented housing.



Source: Toronto Real Estate Board

This shifting composition of housing activity has caused median prices to be essentially stable for the highly-demanded single-detached housing form, but median prices have continued to slip for semi-detached and row units. Because affordability continues to improve, this polarization is likely to continue in the near-term. As for condominium apartments, the median price has fallen more sharply than prices for other forms (by 30%, compared to less than 25% for the others), but it now appears to be stable.



Source: Toronto Real Estate Board

With strong first-time buying activity, approximately 60% of resales are priced under $200,000. In that part of the market, supply and demand are in balance and prices are largely stable. Many potential move-up buyers, on the other hand, are currently hesitant to take on the larger mortgages that would be associated with moving-up. In consequence, the resale market is over-supplied with more-expensive homes. During 1994, a gradual pick-up in move-up buying is expected, as continued low interest rates enable existing homeowners to improve their finances and consumer confidence strengthens.

Supply of listings adequate

Normally, listings of starter homes are made available by move-up buyers. At present, with comparatively little move-up activity happening, there is potential for shortages to develop, especially for moderately priced single detached homes in good condition, in good locations. However, during 1994, the composition of activity will change. With only moderate improvements in affordability, first-time buying will fall off slightly but move-up activity will increase. This will result in adequate supplies of listings and prevent inflation of house prices.

Current strength in the resale market

The Toronto real estate market is performing as we predicted in our Spring forecast. During the summer of 1993, the Toronto real estate market has been very strong, with MLS sales reaching a seasonally-adjusted annual rate of over 50,000 units, which is a very strong performance compared to the 1992 total of 41,703. The seasonally-adjusted ratio of sales-to-active-listings[2] has reached the mid-point of the 20-30% ratio that is required for price stability. This strength is a short-term wave resulting from the declines in mortgage rates that occurred in March and July. As in the past, this wave will dissipate after a few months, during this fall. Sales for 1993 will total 39,500 units. This will be a 5% reduction from 1992, but it will be the sixth best year on record. The average MLS price is forecast at $210,000, a 2% reduction from the $214,971 recorded in 1992.

For 1994, with interest rates expected to increase marginally, affordability will not show the dramatic improvements that have driven the housing market in the past. Thus, housing demand will be determined by the strength of the real economy. With modest growth in employment, MLS sales are forecast to increase to 43,000 units. The sales-to-active-listings ratio will be in the "balanced market" range (20-30%) for most of the year. The average price will increase modestly to $212,000. Values for most homes will be unchanged - the increase in the average will be due to an increased share of move-up buying.

Variations across the Toronto market

Within the Toronto market some areas are performing better than others. Inner-suburban areas (Ajax-Pickering, Brampton, Mississauga, and Scarborough) have catered most successfully to first-time buyers and were the first to return to balance during this year's spring/summer upturn. Inner-core areas at the high end of the price spectrum, and outer-suburbs that offer no advantages over the inner-suburbs, have remained buyers' markets. By the spring of 1994, at the latest, the core areas will return to balance, but distant suburbs could remain buyers' markets well into 1994. Oakville stands out as one of the most consistent markets in the Toronto area, due to the strength of its economic base.

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[2] For consistency with sales data, listings are for "single-family residential" from page 3B of The Toronto Real Estate Board's "Market Watch" report.

In the apartment condominium market, sharp price declines since the peak have made high-rise living a very affordable housing option for young singles and empty nesters. At the same time, improved affordability is encouraging many condominium owner-occupants to move to ground-oriented housing. These two forces will result in continued strength in both sales and listings of condominiums during 1994. Prices are expected to be stable, but are unlikely to increase. There is risk, related to investor-owned condominiums. For most of those owners, their investments are performing below their original expectations. If many of them should decide to sell, that could flood the resale market. To this point, however, there are no signs of this.

New construction offers competition

While the resale market was very active during most of 1992, the new homes market did not fare as well. The share of new home sales compared to total activity (new plus resale homes) fell to 20% in 1992, compared to an average of 35% during the past decade.

During late 1992 and the first half of 1993, starter homes priced under $200,000 have accounted for two-thirds of all activity on the resale market. Home builders, on the other hand, have tended to target move-up buyers, although there are relatively few move-up buyers in the market. Builders are increasingly turning their attentions to first-time buyers and are offering more single-detached homes priced under $200,000 plus lower cost attached housing options (semi-detached homes typically from $160,000 to $170,000 and town-homes priced at $130,000 to $140,000). Builders have shared in increasing housing activity and are experiencing more sales, but the market share of new homes remains at 20%.

Forecast Summary Toronto Market

	1992	1993*	1994*
Existing House Market			
MLS[1] Sales	41,703	39,500	43,000
Average MLS Price	$214,971	$210,000	$212,000
MLS Average Monthly Listings	17,135	15,700	14,800
Renter Households That Can Afford to Buy (July-December)[2]	28.0%	30.0%	31.0%
Forecasting Assumptions			
Mortgage Rate 3 Year	8.95%	8.13%	8.00%
Employment (Year end)	1,761,000	1,780,000	1,820,000
Household Formation	19,000	16,000	18,000
Net Migration	34,000	32,000	35,000

Sources: Toronto Real Estate Board, Statistics Canada and CMHC
* Forecast by CMHC
[1] Multiple Listing Service is a registered certification mark owned by the Canadian Real Estate Association.
[2] Canadian Housing Markets, January 1993; assumptions: Average starter home price, 10% down-payment, 32% GDS, 3 year mortgage rate.

CMHC's First Home Loan program - an added boost to the market

The improved affordability of homeownership is being enhanced by CMHC's First Home Loan Insurance Program (FHLI), which allows homebuyers to use a 5% downpayment. Since its introduction in February 1992, over 12,500 homebuyers have used the program in the Toronto area, constituting over 15% of total sales of new and resale homes. As many of these homebuyers could not have bought without the 5% downpayment program, FHLI has been successful at increasing the accessibility of homeownership in the Toronto CMA. In a national survey of FHLI buyers, nearly 70% stated that they could not have purchased this year without the CMHC program.

The combination of improved affordability and CMHC's 5% down program is providing homebuyers with an excellent opportunity through the remainder of 1993.

For further information, please call Willard Dunning, Senior Market Analyst, CMHC Toronto Branch at (416) 781-2451.

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TORONTO
REAL ESTATE FORECAST

Spring 1993

> ### Highlights
> - Mixed signals from the Toronto economy
> - First-time buyers dominate Toronto housing market
> - Potential move-up buyers are cautious
> - Condominium market will remain over-supplied.

Goods-producing industries start to pick up

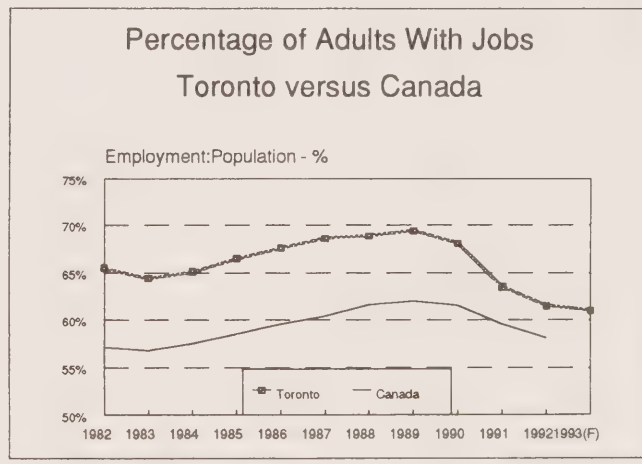
The Toronto economy entered a sharp recession in the spring of 1990. Since April 1990, the level of employment in the Toronto CMA has fallen by 200,000 jobs, or more than 10 per cent. The manufacturing sector was hit very hard by the recession, as consumers and businesses slashed their spending. During the second half of 1992, Canadian manufacturing activity stabilized and then began to turn around. This resulted from lower interest rates and the reduced value of the Canadian dollar. Lower interest rates have reduced debt servicing costs for businesses and consumers, and allowed them more discretion to spend and to invest. The lower dollar has supported Canadian exports to the United States at the same time as it discouraged cross-border shopping. At long last, it can be stated with some confidence that the Toronto manufacturing sector is on the mend. Manufacturing employment is forecast to expand during 1993. But, the recovery is starting from a low level and it will be quite some time before employment returns to the previous peak.

The construction industry has also suffered a sharp downturn. Recovery is not yet in sight for construction, as there is a substantial over-supply in non-residential real estate, and the residential sector has seen only modest gains. However, investments in transportation infrastructure, which have been announced recently, will begin to generate construction jobs later this year.

Uncertainty in service industries

During the past three years, total employment in Toronto's service industries has been stable, in contrast to the declines in goods industries. During 1993, there will be some restructuring in services, which will result in some job losses in the Toronto area. These will occur in financial services, transportation, utilities, and public administration. The wholesale and retail trade industries, on the other hand, will see modest growth as consumer spending continues its gradual recovery.

The combination of a gradual recovery in the goods-producing sector plus uncertainty in service industries makes it difficult to predict the timing and magnitude of employment growth in Toronto. In balance, we expect that by the end of 1993 employment will be 1.78 million, 1% higher than it was at the start of the year.



Sources: Statistics Canada/CMHC Forecast

The state of the local economy is often measured through the level of employment or the unemployment rate. Another revealing measurement is the ratio of employment to the adult population. At Toronto's economic peak in 1989, that ratio averaged 69%. By 1992, it had fallen to an average of 61.5%. The ratio is expected to be stable during 1993 at 61%.

Demographics dictate slow household growth

Historically, Toronto's employment-to-population ratio has been 8 percentage points higher than the rate for all of Canada. This has made Toronto very attractive as a destination for job seekers. During the recession, Toronto has retained an advantage, but its employment to population ra-

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tio is now just 3 percentage points above the Canada rate. This reduction in employment opportunities has caused a sharp downturn in the number of other Canadians who are moving into Toronto. On the other hand, immigration from other countries has been increasing. The Toronto CMA is experiencing a level of net migration much lower than during the late 1980's. Net migration is forecast to be 35,000 this year, or only 60 per cent of the level achieved during the boom.

At this time, population growth in Toronto is being driven primarily by immigration. Because immigrants often arrive with limited financial resources, they tend to have low housing demands for some years after their arrival: they have lower household formation rates (they are likely to "double-up") and they are more likely to rent compared to the Canadian-born. Because population growth is mainly due to immigration, household formation and total housing demand in Toronto will remain weak for the next few years. During the second half of the decade, total housing demand will increase and it will shift towards homeownership, as the population of recent immigrants becomes better established financially.

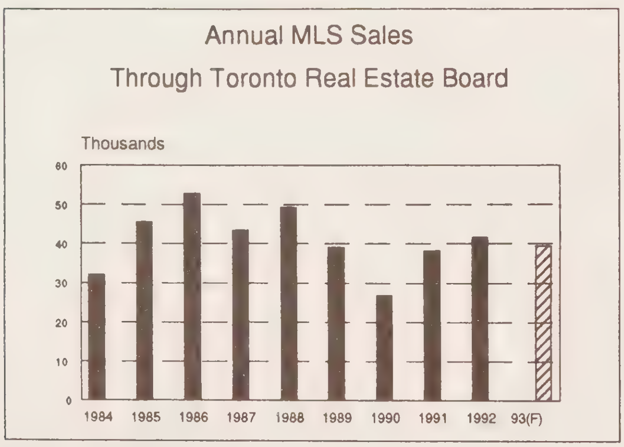
Household formation slowed during 1991 and 1992, as a result of job losses. As the job market stabilizes, household formation will take the first steps to recovery during 1993, rising modestly to 21,000.

Interest rates

In recent weeks, bond markets have rallied and the Canadian dollar has appreciated against the U.S. dollar. These events set the stage for additional declines in mortgage interest rates, for both short-term and long-term mortgages. The timing and magnitude of the decline in rates will depend on the behaviour of the Canadian dollar. It is distinctly possible that Canadian mortgage rates will once again test the two-decade lows that were reached last September (6.25% for one-year terms and 8.5% for five-year terms).

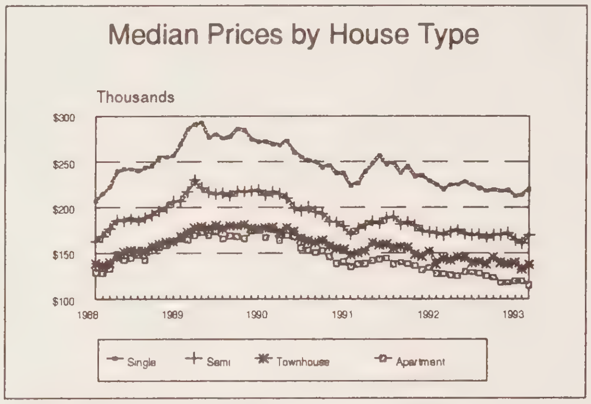
First-time buyers drive the market

The level of housing demand was weak during 1992, in the sense that slow household growth caused housing starts to be relatively weak. But, within the context of weak demand, there was a great increase in the amount of movement within the Toronto housing market. In spite of the recession, residential MLS[1] sales through the Toronto Real Estate Board during 1992 reached the fifth highest annual total ever, at 41,703 units.



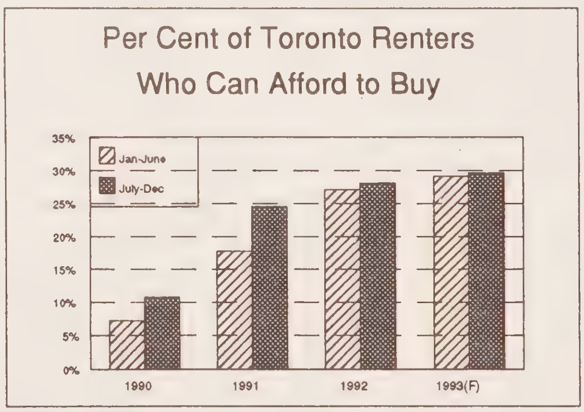
Source: TREB/CMHC Forecast

Since the housing market peaked in 1989, median prices of homes sold through MLS have fallen by one-quarter for all house types.



Source: Toronto Real Estate Board

The combination of lower house prices and the lowest interest rates in two decades has resulted in a very strong improvement in housing affordability. Affordability is now as good or better than it was during the previous housing market recovery, which occurred during 1983 to 1985. According to CMHC's affordability measure, the percentage of renters who can afford to buy has been rising steadily and reached 27% in the first half of 1992 and 28% in the second half. In 1990, in comparison, only 7% of renters could afford to buy. The affordability measure will continue to improve during 1993, and is forecast to reach 29.5% during the second half.



Source: CMHC

This sharp improvement in affordability has enabled increasing numbers of first-time buyers to achieve homeownership, especially now that CMHC insures 95 per cent

1 Multiple Listing Service (MLS) is a registered certification mark owned by the Canadian Real Estate Association.)

mortgages. Thus, the low end of the housing market has experienced strong activity and prices have stabilized. Many potential move-up buyers, on the other hand, are currently hesitant to take on the larger mortgages that would be associated with moving-up. In consequence, the resale market is over-supplied with more-expensive homes.

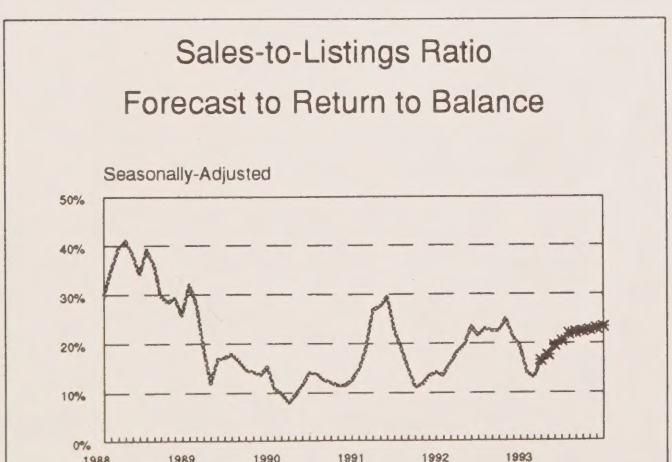
Supply of listings adequate

Normally, listings of starter homes are made available by move-up buyers. At present, with comparatively little move-up activity happening, there is potential for shortages to develop. However, in the current market environment, some listings are being made available from move-down buyers - homeowners who intend to move into lower-priced ownership dwellings or into rental accommodation. Listings are more-or-less satisfying demands for starter homes; for move-up homes, sellers out-number buyers.

A pause in the resale market

During most of 1992, the trend of MLS sales steadily increased, due to improving affordability. By the summer the trend reached a very strong seasonally-adjusted 4,000 units. However, in the fall of 1992 a spike in mortgage rates and a slew of negative announcements concerning major corporations adversely affected consumer confidence and caused many potential buyers to become cautious. The trend of sales activity has dropped sharply to 2,400 units.

Since interest rates are expected to be stable or declining in the coming months, home sales should soon start to improve again and the housing market will move towards balance during the spring and summer. In the current market, the first-time buyer segment is strongest while move-up activity is weak. A combination of factors is causing potential move-up buyers to be cautious. These include: the extent of job losses that have occurred, a residual of uncertainty about the economy, losses of homeowner equity during the past three years, and the prevailing sense that prices are unlikely to increase for some time. The predominant belief is that there is no urgency to buy. In this environment, move-up buying will increase only modestly during the year. Robust recovery depends upon definite signs that employment is on a sustained growth path, which would improve consumer confidence.



Sources: TREB/CMHC Forecast for 1993

As home sales have slowed in recent months, the ratio of sales-to-active-listings [2] has dropped, and is currently below 20%. In Toronto, 20% seems to be the threshold for price stability. Thus, at an aggregate level, the market is over-supplied. At the low end of the market, supply and demand are in balance and prices are stable. The high end of the move-up market is over-supplied and will remain that way for the balance of this year.

The total number of MLS resales in 1993 is forecast at 39,500, down 5% from 41,703 in 1992. This will be the sixth best year on record. The average MLS price is forecast at $210,000, a 2% reduction from the $214,971 recorded in 1992. However, it represents a modest firming compared to the short-term trend, which has averaged $208,000 during the past three months. A modest increase in move-up buying later this year will bolster the average price.

Variations across the Toronto market

Within the Toronto market some areas are performing better than others. Western areas (Oakville, Mississauga, and Brampton) will continue to lead during 1993. Their large supplies of moderate-cost housing, good transportation links, and improving job markets make them attractive to first-time buyers compared to other areas. On the other hand, recovery in the east and north depends very much on the establishment of stability and confidence in the automotive sector.

In the condominium market, there is a very large supply of investor-owned apartment condominium units which could become available in the resale market. In addition, improved affordability is encouraging many condominium owner-occupants to move to ground-oriented housing. As a result, the apartment condominium market will remain over-supplied for all of 1993.

New construction offers increased competition

While the resale market was very active during most of 1992, the new homes market did not fare as well. The share of new home sales compared to total activity (new plus resale homes) fell to 20 per cent in 1992, compared to an average of 35 per cent during the past decade.

During late 1992 and early 1993, starter homes priced under $200,000 have accounted for two-thirds of all activity on the resale market. Home builders, on the other hand, have tended to target move-up buyers, although there are relatively few move-up buyers in the market. Builders are increasingly turning their attentions to first-time buyers and are offering more single-detached homes priced under $200,000 and attached housing (semi-detached and rows) priced at $150,000 and up.

2 For consistency with sales data, listings are for "single-family residential" from page 3B of The Toronto Real Estate Board's "Market Watch" report.

Forecast Summary Toronto Market

	1991	1992	1993*
Existing House Market			
MLS[1] Sales	38,144	41,703	39,500
Average MLS Price	$234,313	$214,971	$210,000
MLS Average Monthly Listings	16,874	17,135	17,000
Renter Households That Can Afford to Buy (July-December)[2]	24.4%	28.0%	29.5%
Forecasting Assumptions			
Mortgage Rate 3 Year	10.90%	8.96%	8.44%
Employment (Year end)	1,815,000	1,761,000	1,780,000
Household Formation	20,000	19,000	21,000
Net Migration	25,000	28,000	35,000

Sources: Toronto Real Estate Board, Statistics Canada, and CMHC.

* Forecast by CMHC

1 Multiple Listing Service is a registered certification mark owned by the Canadian Real Estate Association.

2 Canadian Housing Markets, January 1993; assumptions: Average starter home price, 10% downpayment, 32% GDS, 3 year mortgage rate.

CMHC's First Home Loan program a resounding success

When it was introduced in early 1992, it was anticipated that 10,000 households across Canada would use CMHC's new program during 1992 to buy their first home with only a 5 per cent downpayment. Nationally, that figure was surpassed during the first few months. In just the Toronto CMA, 6,900 households used the program in 1992. This contributed to the Toronto Real Estate Board reaching the fifth-highest ever annual sales total. Approximately 90% of those using the program purchased resale homes. Clients of the First Home Loan Insurance Program have Gross Debt Service Ratios (GDS) similar to households which have higher downpayments - the average GDS ratio in Toronto was 27%. This shows that many households can afford the monthly costs of owning a home, but accumulating the down payment can be difficult.

For further information, please call Willard Dunning, Senior Market Analyst, CMHC Toronto Branch at (416) 781-2451.

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